**In The Matter Of:**

*R.J. REYNOLDS TOBACCO COMPANY*

*MATTER NO. D09285*

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*DIANE S. BURROWS*

*Vol. 2, June 3, 1998*

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*Original File 80603bur.asc, 103 Pages*
*Min-U-Script® File ID: 4031580807*

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FEDERAL TRADE COMMISSION

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FEDERAL TRADE COMMISSION

In the Matter of: )
R.J. Reynolds Tobacco Co., )
a corporation. ) Matter No. D09285

Wednesday, June 3, 1998

Kilpatrick Stockton LLP
1001 West Fourth Street
Winston-Salem, North Carolina 27101

The above-entitled matter came on for administrative deposition, pursuant to notice, at 1:15 p.m.

APPEARANCES:

ON BEHALF OF THE FEDERAL TRADE COMMISSION:
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PROCEEDINGS

Whereupon--
DIANE S. BURROWS
a witness, called for examination, having been previously sworn, was examined and testified further as follows:

EXAMINATION
BY MR. SHONKA:

Q: Good afternoon, Ms. Burrows.
A: Good afternoon.
Q: How are you feeling today?
A: Well enough, thank you.
Q: Ready to go?
A: Yes, let's go.
Q: You understand that you are still under oath from yesterday?
A: Yes, I do.
MR. SHONKA: I would like to have marked as the first exhibit for today, Burrows Exhibit No. 11, a document that has a Reynolds bates number on it of 514349111 through 9113.
(Burrows Deposition Exhibit Number 11 was marked for identification.)
BY MR. SHONKA:

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Q: Ms. Burrows, if you would take a minute to look at the document, and in fact, while you are looking at it, I would ask that you also look at an exhibit from yesterday's deposition which we had marked as Burrows Exhibit 8.
Ms. Burrows, I will represent to you that Burrows Exhibit 8 and Burrows Exhibit 11 are in all respects, except for the caption and the date and the addressee, the same, at least in the text, that the text is. I will not make that representation for the CCs as I have not compared them.
A: It looks similar.
Q: The question I have is why did you send this Burrows Exhibit 11 to Mr. Hall?
MR. TAYLOR: About what, a couple of weeks later, looks like eight, September something or another, September 20 something or other.
THE WITNESS: Perhaps 27th.
MR. TAYLOR: There was a lot of stuff on September 27th on yesterday's and this is October 6th. What's that, a week and a half or something, a week.
THE WITNESS: I really don't know why.
BY MR. SHONKA:
Q: Do you recall if anyone asked you to send the document to Mr. Hall?

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A: I am sure I would have been asked to because I wouldn't have taken it upon myself. I don't know who specifically that was. The normal practice would be that it was someone who saw the first one and thought Mr. Hall should see it.
Q: I note that Burrows Exhibit 8 is addressed to Mr. Galyan?
A: Yes, very good.
Q: Thank you. It is addressed to Mr. Galyan and actually I see that it has no CCs.
A: Except the library.
Q: Do you have any reason to think it was anyone other than Mr. Galyan who suggested or directed, whichever it was, you to send Burrows Exhibit 11?
A: No, I don't. I don't have any reason to think it was anyone other than Mr. Galyan or ultimately Mr. Galyan.
Perhaps it will be generally helpful to offer to you some information. A common practice for junior people was to draft material for their immediate supervisor's review and it went no farther until the immediate supervisor deemed that it should or made corrections or whatever was necessary. So I don't know for certain about these documents, but that was a fairly common practice was to first address anything to your

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supervisor for review and then his judgment would dictate any further distribution.

Q: Is that to say that Burrows Exhibit 8, which is directed to Mr. Galyan, might have been drafted with the intention that it would ultimately go to Mr. Hall?

A: It might or might not have been, I don't know.

Q: But that would have been a common practice?

A: That would have been a possibility. It could have been Phil asked me to do it in the first place for his own reasons that I don't know.

Q: And do you recall if you sometimes followed the practice you described?

A: Yes, I did sometimes, and I don't know exactly which situations, but analysts did not issue anything above their supervisor without their supervisor's concurrence.

MR. SHONKA: Thank you. I would like to have marked as Burrows Exhibit 12 a document that has previously been identified in the administrative proceeding by complaint counsel as CX-72, and I am handing this to the court reporter.

(Burrows Exhibit Number 12 was marked for identification.)



BY MR. SHONKA:

Q: And Ms. Burrows, I also ask you to take a look at Burrows Exhibit 10 from yesterday.

MR. TAYLOR: Are you making that same representation to us here?

MR. SHONKA: Yes. I will represent to you that Burrows Exhibit 12, the text of Burrows Exhibit 12, is the same as the text of Burrows Exhibit 10.

MR. TAYLOR: How about the attachments?

MR. SHONKA: And the attachments I have not checked, so my representation, I will limit it to the text of the document, not to the attachments.

For the record, Burrows Exhibit 12 is a memorandum from Ms. Burrows to L.W. Hall, Jr. captioned NBER models of price elasticity by age/sex, and it is dated October 6, 1982.

I would ask you if you have any recollection of the reason why you sent Burrows Exhibit 12 to Mr. Hall on October 6th?

THE WITNESS: No. My copy says price sensitivity by age/sex.

BY MR. SHONKA:

Q: I'm sorry, mine does as well. I misread it. We'll clarify the record, the subject line says MBER models of price sensitive by age/sex.



Does your review of Burrows Exhibit 12 in any way refresh your recollection as to the likelihood that Mr. Moore in this case asked you to send a memo to Mr. Hall? I note that Mr. Moore, for the record, is the recipient of Burrows Exhibit 10.

MR. TAYLOR: If you have a recollection. Don't guess. If you have a recollection, he is asking you for that.

THE WITNESS: I don't see any clues as to how the second copy would have been directed. I don't know.

BY MR. SHONKA:

Q: Do you have any understanding as to what Mr. Hall's interest in federal excise tax issues were at that time?

MR. WILLIAMS: Object, lack of foundation. It depends on if she has any interest in it.

MR. TAYLOR: So what, if any, interest he had in 1982 at the time these were written, if you have any knowledge of that?

THE WITNESS: I don't have any direct knowledge that I know of. The whole company was interested in the federal excise tax increase, but that would be a guess on my part.

MR. SHONKA: Next I would like to have



marked as an exhibit a document that has the Reynolds bates numbers 501432327 through 501432336.

(Burrows Exhibit Number 13 was marked for identification.)

BY MR. SHONKA:

Q: And for the record, I note that Burrows Exhibit 13 is a memorandum dated October 13, 1982 from L.W. Hall, Jr. To Mr. L.M. Orlowsky, O-r-l-o-w-s-k-y. How do you pronounce it?

A: I would say Orlowsky.

Q: And Mr. J.W. Johnston. The memo has attached to it, first, a memorandum that is labeled confidential and is dated October 6, 1982 from Ms. Burrows –

MR. TAYLOR: Looks like Exhibit 12 to me.

MR. SHONKA: To Mr. Hall. It appears to be 12.

Ms. Burrows, have you ever seen Burrows Exhibit 13 before? Do you recall?

MR. TAYLOR: You mean as it's constituted here today, that is, the October 13th cover sheet to the October 12, 1992 memorandum?

MR. SHONKA: Yes.

THE WITNESS: Since I believe the difference is in the cover sheet.

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MR. TAYLOR: The question is whether you have seen if like it is here today?
MR. SHONKA: In its present state.
THE WITNESS: I don't think so. I don't recall.
BY MR. SHONKA:
Q: Do you recall seeing the attachment to Burrows Exhibit 13?
MR. TAYLOR: The attachment to Burrows Exhibit 13?
MR. SHONKA: Yes, the document that appears to be Exhibit 12.
MR. TAYLOR: That appears she authored.
MR. WILLIAMS: She already said she saw it.
THE WITNESS: I assume that what is attached to Mr. Hall's cover memo is the same as Exhibit 12, and since is's signed by me and looks like some of the – a lot of the stuff I did on this, I would say I have seen that before.
BY MR. SHONKA:
Q: Do you know who Mr. Johnston was, what position he held with Reynolds in October 13, 1982?
A: No, not really.
Q: Do you know what position Mr. Orlowsky held at that time?

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A: No, not really. They were both senior people and that's all I know.
Q: Were they above Mr. Hall, to your knowledge, or recollection?
MR. TAYLOR: Don't guess. If you know and can recall.
THE WITNESS: I'm not sure.
BY MR. SHONKA:
Q: Ms. Burrows, do you recall our discussion yesterday regarding your suggestion in a memo that Reynolds sell half packs of cigarettes?
A: Yes, I do. Well, in general, yes.
Q: That way I don't have to bring out another document.
MR. WILLIAMS: Are we going back to the half pack document?
MR. SHONKA: No. I asked her only if she recalled the discussion. The reason is so we wouldn't have to go back to the half pack document.
I ask the reporter to please mark this as Burrows Exhibit 14.
(Burrows Deposition Exhibit Number 14 was marked for identification.)
MR. TAYLOR: This is difficult to read.
BY MR. SHONKA:

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Q: I will –
MR. WILLIAMS: I can't read it, I'm sorry. You are going to have to give –
MR. SHONKA: I will identify it for the record while you read, but I will wait until everybody is ready.
It is a memo that is labeled confidential. It is dated October 14, I believe, 1982. It is a memo addressed to Mr. L.W. Hall, Jr. from Ms. D.S. Burrows. The subject is marketing implications of the NBER study on price sensitivity among adults 20 plus.
MR. WILLIAMS: I think the problem is mine is mis-stapled. I have got –
MR. TAYLOR: Looks like your second page is my first page.
MR. WILLIAMS: Oh, I see.
MR. TAYLOR: The second page is worse than the first page.
THE WITNESS: I am having a very difficult time figuring out what this says, just reading it because of the copy.
MR. TAYLOR: Is there a question pending or you just wanted her to read it at this point?
MR. SHONKA: Let me cut through this. Maybe we can avoid reading it.

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MR. TAYLOR: Let me tell you what I have here, too. I have three pages. How many pages do you have, Diane?
THE WITNESS: Two.
MR. WILLIAMS: Mine is two.
MR. TAYLOR: My third page is my first page all over again, so I will take care of that problem. Now I have two pages.
MR. WILLIAMS: I'm sorry, what is the date? I cannot read the date.
MR. TAYLOR: Something '82.
MR. SHONKA: Bear with me a moment. I will check the exhibit list.
MR. TAYLOR: Looks like it's double digits, but I'm not totally sure of that.
MR. SHONKA: October 14th. Yes, the exhibit list indicates it is October 14, 1982.
Ms. Burrows, I draw your attention to the bottom of the first page. Can you make out the asterisk, and then up just above the asterisk there is a paragraph that is numbered three and it says "'Half packs' (10's or 12's) of a new or existing younger adult male brand, as an alternative to the brand's 20s." Do you see that?
THE WITNESS: I see that.

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BY MR. SHONKA:

Q: Do you recall anyone suggesting to you that you forward or send your recommendation for half packs to Mr. Hall?

MR. TAYLOR: Objection.

MR. SHONKA: An earlier recommendation that we discussed yesterday. If you wish to go back, Ms. Burrows, to the document you reviewed yesterday we can do that.

MR. TAYLOR: Let's do that. Is the question, did you – because I think they are different. What's the exhibit number?

MR. SHONKA: I will not represent the exhibits are the same. They are not.

MR. TAYLOR: I think the question is different. In other words, the recommendation at one point had to do with one thing and this is a different recommendation. That's where I'm going. That's my memory, subject to the warbles of memory at times. This looks like it's Exhibit 9.

MR. WILLIAMS: It's Exhibit 9.

BY MR. SHONKA:

Q: Ms. Burrows, do you now have before you Burrows Exhibit 9 as well as Burrows Exhibit 14?

A: Mr. Taylor provided me with it.



MR. TAYLOR: Yeah, that's mine.

MR. SHONKA: Here is the original one so you both have a copy.

In Burrows Exhibit 9 in a memorandum dated September 27, 1982 to Mr. Galyan, you recommended near the bottom of the first page the first bullet point, "Half packs are a logical size for beginner smokers. As mature smokers their rate will double or more. Brand loyalty would carry this brand over to the brand's 20's?

MR. WILLIAMS: You just read from nine?

MR. SHONKA: Yeah, I am just reading from nine.

THE WITNESS: I see the two paragraphs.

BY MR. SHONKA:

Q: In Burrows Exhibit 9 you did, did you not, make a recommendation that Reynolds market half packs?

A: The memo says I recommend marketing half packs because, and then the bullet point, yes, sir.

MR. TAYLOR: Younger adult males.

THE WITNESS: In Exhibit 9 I was referencing. That's the one I thought you asked me, did I not recommend it in Exhibit 9.

MR. SHONKA: I did.

THE WITNESS: And the memo says I did.

MR. TAYLOR: Do you have any recollection



of it here.

THE WITNESS: Of it here, I remember when I saw Exhibit 9 yesterday, I recalled that I had suggested such an idea.

BY MR. SHONKA:

Q: And my question to you now is, did Mr. Galyan ask you to send your recommendation to sell half packs on to Mr. Hall?

A: I infer from this material that he did not do exactly that or what would have happened is Exhibit 9 would have been re-addressed or something to Mr. Hall.

Q: You are saying the text of nine would have been the same then as 14 had that –

A: There are substantial differences between these two documents in terms of almost everything except the similarity between point number three on Exhibit 14 and some similarity between that and bullet point one on the first page of Exhibit 9. There may be other similarities, but almost everything I see before me in the Exhibit 14 looks different.

Q: Sitting here today, do you have any reason to think that you sent Burrows Exhibit 14 to Mr. Hall on your own initiative?

MR. WILLIAMS: That's 16 years ago. What is the purpose of this?



MR. TAYLOR: The reverse of that, it's sort of an unfair question. Do you have any reason to believe you didn't send it on your own initiative. Isn't there another way to get at what you want?

MR. SHONKA: I'm not sure. I am only asking her if she has any reason to think that she did it on her own initiative.

THE WITNESS: What I am reminded by your question to state is Exhibit 9, as I recall it, was on my own initiative. Nobody ever asked me to do that, and I recall that some people were upset with me for that. Exactly the content of their complaint I don't recall, but I recall some people were angry with me, and beyond that, I can't answer about Exhibit 14.

BY MR. SHONKA:

Q: Just to clarify that, the anger was directed at you because of Burrows Exhibit 9?

A: I recall it that way or for getting into this without being asked or something – I presume it was this memo, yes.

Q: This memo being Exhibit 9?

A: Exhibit 9, yes.

Q: One last question before leaving the area. Do you recall editing Burrows Exhibit 9 at Mr. Galyan's request to make it Burrows Exhibit 14?

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A: No, sir, I really don't.
MR. SHONKA: I would like to have marked a document that is identified as Reynolds bates number 503189845.
(Burrows Deposition Exhibit Number 15 was marked for identification.)
BY MR. SHONKA:
Q: For the record, Burrows Exhibit 15 is a memo dated October 7, 1982 to Mr. Steve Perry, RJR Tobacco International from Ms. Diane S. Burrows. The subject is price elasticity estimates. I ask the witness to take a few moments to take a look at the document.
A: Yes, sir.
Q: Have you finished looking at it, Ms. Burrows?
A: Yes, sir.
Q: Ms. Burrows, do you recognize the document?
A: No, I don't.
Q: That is your signature at the bottom of the first page?
A: It appears to be.
Q: I ask you to look at the first line where you say "Here are three items which may assist RJR Canada in their price elasticity research." What is RJR

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Canada?
A: It was a – this is again getting into organization charts at the corporate level. I would assume it was the Canadian business of RJR or infer that, which was in various years called McDonald's or under another company or not. I'm really unclear on that.
Q: Is RJR Canada and RJR McDonald's, to the best of your knowledge, the same company?
MR. WILLIAMS: Objection. Does she have personal knowledge?
MR. SHONKA: Was that your understanding at that time?
MR. TAYLOR: In 1982, is it her understanding they were the same thing?
MR. SHONKA: No.
THE WITNESS: I'm really not very good on the corporate structure.
BY MR. SHONKA:
Q: Where is RJR Tobacco International located, headquartered?
MR. TAYLOR: Where is it now?
MR. SHONKA: Yes.
Where is it now?
THE WITNESS: I read in the newspaper that

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it moved to Geneva perhaps.
BY MR. SHONKA:
Q: Where was it headquartered in 1982?
A: I'm not sure.
Q: Has RJR Tobacco International had business offices here in Winston-Salem?
MR. WILLIAMS: May I have the question – had or have?
MR. SHONKA: Had at any time.
MR. WILLIAMS: At any time have they had business offices?
MR. SHONKA: To the best of your knowledge?
MR. TAYLOR: To your knowledge?
THE WITNESS: Yes.
BY MR. SHONKA:
Q: Were they ever headquartered here in Winston-Salem?
A: I believe so. I know there were some offices for Tobacco International people at one time in Winston-Salem. I am not sure where their official headquarters was at any given point in time.
Q: Do you have any sense of the time when they had offices here in Winston-Salem?
A: The part I can clearly recall is when I did the brief consulting project that I think was in 1994

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for Tobacco International, and I did go to offices in the Plaza building here in Winston-Salem, so that's how I know they had offices, some offices here at that point.
Q: Do you know where Steve Perry was located at the time you sent Burrows Exhibit 15 to him?
A: No, I don't.
Q: Maybe I need some help here understanding how memoranda would have been transmitted from you for Mr. Perry with only the address on it of RJR Tobacco International?
MR. TAYLOR: Ask the question.
BY MR. SHONKA:
Q: My question is, do you know how that would have been done?
A: Not really. The secretaries handled that.
Q: Was it a common practice to send information to RJR Canada?
A: I really don't know.
Q: Did anyone ask you to send this information to Canada?
A: I'm sure they did.
MR. WILLIAMS: Wait a minute.
MR. TAYLOR: To Steve Perry?
MR. SHONKA: To Steve Perry.

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THE WITNESS: I'm sure someone asked me to send this memo and whatever it says.

BY MR. SHONKA:

Q: You indicated yesterday in our discussion that you at one time were acquainted with Steve Perry?

A: Yes.

Q: And if I represent to you that Burrows Exhibit 1 indicates that Mr. Perry - page 15 of the attachments we were referring to yesterday identifies an S.R. Perry as a Steven R. Perry, and as you recall, when we were talking about Mr. Perry yesterday, this was during your early period at Reynolds and Burrows Exhibit 1 indicates that at that time Mr. Perry was a marketing research associate statistician between February of '79 and October of '79, and a marketing research statistician between November of '79 and September of '80.

Burrows Exhibit 1 also indicates that Mr. Perry between beginning in September 1, 1981 became marketing assistant - marketing systems manager RJRTI. Is RJRTI - it is a reference to International. I draw your attention to the note at the bottom of the page. It says that. And the following page indicates that Mr. Perry became marketing systems and research manager RJRTI after December 1, 1981 through June 15, 1984.



MR. WILLIAMS: Is there a question?

BY MR. SHONKA:

Q: Is it your understanding that the Mr. Perry addressed in Burrows Exhibit 15 is the same Mr. Perry that you were acquainted with early in your career at Reynolds?

MR. TAYLOR: That you believe to be the same one that existed on -

MR. WILLIAMS: She already said it was the same one.

THE WITNESS: I think so. I said I knew Steve Perry, and now that you mention it, he did do some statistical something, I think.

BY MR. SHONKA:

Q: Did you continue to stay in contact with Mr. Perry after your early years at Reynolds, after your position as a librarian?

A: I wouldn't say I stayed in contact, no.

Q: Did you continue to have business dealings directly with him?

A: No business dealings after he left Reynolds, I am fairly certain of that.

Q: While he was still at Reynolds, and by Reynolds here I mean Reynolds domestic or Reynolds international, did you have any business dealings with



him other than that indicated in Burrows Exhibit 15?

A: I was rather surprised to even see a memo addressed to him. I recall very limited, if any, business dealings with Mr. Perry.

Q: Do you recall any, though, other than that reflected in Burrows Exhibit 15?

A: No, sir, I'm just saying since there is this exhibit there may have been some limited, but my recollection he was part of a group that stopped off every Friday night after work and told good jokes and that's the main thing I knew about Steve Perry, so -

Q: I understand. Just where did he stop off?

A: In those days the Sir Winston downtown, which no longer exists.

Q: That's unfortunate.

A: Part of a large group in those days.

MR. WILLIAMS: David, I thought we gave you a list of the restaurants in Winston-Salem.

MR. SHONKA: It turns out this one is closed, John, that's all.

MR. WILLIAMS: Do we have a number on that last exhibit?

MR. SHONKA: 15, I believe.

Ms. Burrows, after you finished your position as a marketing research analyst, what position



did you take next with Reynolds? If you need to resort -

MR. TAYLOR: I don't want her to resort to that. If you remember, answer the question.

MR. WILLIAMS: What year are we in now?

MR. SHONKA: 1983.

THE WITNESS: Well, sir, one technical difficulty I have here is marketing research analyst is not exactly a position in my view of things. It's a job level and I believe I said yesterday that I thought I probably held three different positions as market research analyst, so I need you to clarify the question. Do you want me to answer about a position or a level?

BY MR. SHONKA:

Q: Let me cut through it and tell you that Burrows Exhibit 1 indicates that on May 1, 1983 you became a senior marketing research analyst.

A: Yes, if they say so -

MR. TAYLOR: That's what it says, we'll agree with that.

BY MR. SHONKA:

Q: And the question, you may have sort of answered it already, is was this a job change or a promotion?

A: As I recall it, that was a promotion while

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I was in a job assignment. I'm not 100 percent sure of that. That's my recollection today.
Q: Did your reporting responsibilities change?
A: At the time of that promotion, my recollection is they would not have.
Q: Did you at that time begin to supervise other people?
A: No, sir.
Q: Did your job responsibilities differ?
A: As a result of that promotion?
Q: Yes.
A: No, sir, I got a raise and a better title and that's it.
Q: As a senior marketing research analyst, did you work on any particular brands?
A: As I am recalling it, I was at that time assigned to the Salem brand research group or unit or whatever it was.
Q: And the Salem brand research group was obviously responsible for Salem brand?
A: Well, for research related to the Salem brand, yes.
Q: Did it have responsibility for any other brands?

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A: I don't believe so.
Q: Did you work for any other brand while you were a senior marketing research analyst?
A: For any other brand research group or is that –
Q: Any other brand?
A: Well, working for the brand research group was not really working – well, this is a terminology thing, the brand, when the term comes to my ears, that was typically referenced in marketing and these were marketing research positions, so – but related to the Salem brand that would come in the package.
Q: It's marketing research, but it is not technically working for the brand?
A: In a sense that the brand was often used to refer to the marketing group, yes.
Q: Purely marketing function?
A: It was a separate structure.
Q: Did you work then for any other brand research group while you were a senior researcher?
A: No.
Q: I take it you continued to work on corporate level matters?
MR. WILLIAMS: Let me object as vague.
THE WITNESS: What is a corporate level

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matter?
BY MR. SHONKA:
Q: I thought you indicated yesterday that some of the research or a great deal of the research you had done was more at a corporate level rather than brand specific, and the question – let me back up. Have I misunderstood you?
MR. TAYLOR: She said what she said and it's on the record, but –
MR. WILLIAMS: We are going to be going four days.
MR. SHONKA: We'll go faster if you don't make a lot of objections.
MR. TAYLOR: Sure we will, but you will take advantage of my client if I don't make objections.
MR. WILLIAMS: We have an obligation to make sure the questions asked are objected to if they are improper, and I am sorry, but it is our duty as attorneys to do so.
MR. SHONKA: Thank you.
Can you answer the question?
THE WITNESS: I'm sorry, can you say it for me again.
MR. SHONKA: Would you please read it back.
MR. TAYLOR: I am going to instruct my

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client not to answer any questions that you ask her whether or not she said X, Y, or Z yesterday based on your reading of a transcript last night that was transcribed and the unavailability to her. That is not fair, counselor. It is not accepted practice in North Carolina and here it will not take place.
MR. SHONKA: So the record is clear, I did not have the transcript last night have not received it. Reynolds has an expedited copy of the transcript, the Federal Trade Commission does not.
MR. TAYLOR: I do not and I can tell you that.
MR. SHONKA: So the questions I am asking are sincerely predicated on wanting to make sure that I am not going on wrong assumptions. I am not trying to waste anybody's time. I am trying to make sure we don't misstate things, and so I have asked the witness to please clarify things to make sure that I am right. That is the only purpose of the question. It is not a trick question. I promised not to ask trick questions yesterday.
MR. TAYLOR: She is here as a fact witness to be examined about things that occurred, as I understand it, many years ago, and I would suggest that that's the way to ask questions, not as to what happened

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yesterday.
MR. WILLIAMS: Let me just before she does that, two things. One, I am going to object as well to characterizing her deposition testimony from one day to the next, and secondly, I don't have an expedited copy of this. I haven't seen a copy of this transcript. Let's be careful about that.
Let me put it this way, I do not have a copy of the transcript from yesterday. Whatever they are doing today in terms of moving this along has not assisted Reynolds any more than you in conducting or defending this deposition.
MR. TAYLOR: Could you go back to what she testified to yesterday and read it back.
(The record was read.)
BY MR. SHONKA:
Q: Can you respond to the question?
MR. WILLIAMS: Same objection.
THE WITNESS: I'm not sure what words I said yesterday. It is a correct, very general characterization of my work in market research at Reynolds that more of it was addressed to analysis of the industry, the company business on a broad range of brands and not in support of one specific brand.
BY MR. SHONKA:

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Q: And the question is, as a senior marketing research analyst, did you continue to do that sort of work as well as working for the Salem brand research group?
A: While I was working for the Salem brand research group, I would have performed duties related to what was deemed necessary for the Salem brand. I believe that while I was still a market research senior analyst by now, that I was rotated to another job where my duties would have changed.
Q: What was the other position?
A: The next position I recall was reporting to Dick Nordine, and I guess I have a sheet, but it wouldn't tell me, would it?
Q: So at some point you changed supervisors while you continued to be a senior marketing research analyst?
A: Yes, sir. As we discussed, these titles and the actual jobs didn't necessarily change at the same time.
Q: Thank you. Do you recall when you began working for Mr. Nordine?
A: I have a recollection that it was in –
MR. TAYLOR: If you have a recollection, but don't read off a piece of paper or tell him you are

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reading off a piece of paper.
THE WITNESS: My recollection is it was in the month of November, and that must have been 1983.
BY MR. SHONKA:
Q: Thank you. Did you as a senior marketing research analyst ever work on a project called the Younger Adults Task Force?
A: I don't recall any task force during that period.
MR. SHONKA: I would like the reporter to mark as the next exhibit, which is Burrows Exhibit 16, a document that has the bates numbers 502631142 through 1149. It has previously been marked as CX-842 in the administrative proceeding. It is a memorandum dated November 16, 1983 from D.S. Burrows to L.P. Mabee, M-a-b-e-e, S.Y. Evans, E-v-a-n-s, and S.W. Teague, T-e-a-g-u-e.
(Burrows Deposition Exhibit Number 16 was marked for identification.)
BY MR. SHONKA:
Q: Ms. Burrows, I would ask you to look at the first paragraph of the memorandum that I have just identified in which it says, "In our last younger adult task force meeting you asked me to forward a suggested procedure for analyzing the importance of aging versus

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other effects on brands'" – that's s' – "historical shares of smokers, and projecting possible aging effects in the future."
If you want to take a moment to look at the rest of the document, you may.
MR. TAYLOR: Is there a question there?
MR. SHONKA: I want to make sure the witness is comfortable before I ask questions, sir.
MR. TAYLOR: In that case you may never get to ask a question as far as her comfort level.
THE WITNESS: I have looked at it. If we go into detail, I may look some more.
BY MR. SHONKA:
Q: Ms. Burrows, the only question I have is, does your review of Burrows Exhibit 16 refresh your recollection as to having worked on a younger adult task force?
A: To some limited extent, yes, sir.
Q: What can you tell me about the task force?
A: The way it comes back to my mind is that there was an interest in incorporating some of the arithmetic, I will call it, or other groups learning to use similar arithmetic to predict aging effects, and there was a group that got together, which I see must have been called a task force, and my role was to try to

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help everyone learn to work this arithmetic and possibly be able to make use of it in their areas.
That's what comes back to mind.
Q: When you say "make use of it in their areas," are you saying that the task force – what do you mean by that?
A: The people the memo is addressed to didn't work in the same area that I did. They worked in other – and, I don't know exactly where – other departments within the market research department. These other persons in the market research department were not familiar with how to implement some of the more or less arithmetic that I had been doing to attempt to project future brand shares or that kind of thing.
So someone must have had a desire to share the learning with other groups within market research, and that was – that's the general recollection I have about this kind of thing.
Q: Was the work that you did on the task force related to the econometric model that we discussed yesterday?
A: I wouldn't say directly related, no, sir. There is certainly some commonality between this kind of arithmetic and some of the kinds of arithmetic we have seen in memos from the econometric model days.

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Q: Only in the sense then as an aside, but not a continuation of the first project?
A: Right.
Q: Do you know who set up the task force?
A: No, sir. I didn't even remember it.
Q: Do you recall why it was set up?
A: I have given you my best kind of – recollection.
Q: And you don't recall any other reason for it?
A: No, sir.
Q: S.W. Teague is a new name for us on these depositions so far as I know. Could you tell me who he, she is?
A: I believe that would have been Susan Teague.
Q: Do you know where she worked?
A: She worked within the market research department, a variety of positions as was typical. She and I joined the market research – I mis-spoke. I think she joined the company about the time I left the library and began trying to do market research as such.
Q: So you both began market research about the same time?
A: Well, I technically worked for market research as a librarian, but I recall her being new roughly the time period after I left the library. That could be very imprecise. Our tenures with the company overlapped.
Q: Do you know where she is now?
A: Where she is?
Q: Yes.
A: No, not really.
MR. TAYLOR: It's an hour plus. I'm going to make that note only to note it.
MR. SHONKA: We can take a break any time someone wants one.
THE WITNESS: Whatever suits –
MR. SHONKA: I will let the witness decides this one.
THE WITNESS: Since it's been suggested, let's go ahead and do it.
(Recess was taken from 2:10 p.m. to 2:30 p.m.)
(Burrows Deposition Exhibit Number 17 was marked for identification.)
BY MR. SHONKA:
Q: While we were off the record I had marked Burrows Exhibit 17, which I have given to the witness. Burrows Exhibit 17 is a multi-page document with a cover that says youth smoking, November 21, 1983. It has been previously marked by complaint counsel in the administrative proceeding as CX-843.
Ms. Burrows, I ask you to take a look at exhibit, Burrows 17, and tell me if you recognize the document?
A: No, sir, I don't.
Q: Do you have any idea who prepared it?
A: No.
Q: Do you know or can you tell if it is a Reynolds document?
MR. WILLIAMS: What do you mean by Reynolds document?
MR. SHONKA: By Reynolds document I mean document that was prepared by somebody in Reynolds.
THE WITNESS: The only thing I could do is look and see if it said Reynolds somewhere and I presume you folks have already looked for that. I believe I have never seen this or heard of it before.
BY MR. SHONKA:
Q: You are not familiar with it?
A: No, sir.
Q: Tell me, are you aware in the fall of 1983 of a series of focus groups that were conducted as part of a qualitative testing for younger adult smokers?
A: In what time frame?

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MR. WILLIAMS: Object, lack of foundation.
MR. SHONKA: I'm asking if she knows of it.
MR. WILLIAMS: I understand.
MR. SHONKA: Thank you.
THE WITNESS: What time frame did you say?
BY MR. SHONKA:
Q: The autumn of 1983.
A: I don't think of anything.
MR. SHONKA: I would like to have another document marked as Burrows Exhibit 18.
(Burrows Deposition Exhibit Number 18 was marked for identification.)
BY MR. SHONKA:
Q: And Burrows Exhibit 18 for the record is a document that is captioned at the top, marketing development proposal, MDD number 833-41111 and the title on the document is younger adult smokers focus groups, Roman numeral III – I'm sorry, I misstated the MDD number. It is 83-41111 so the record is clear.
Ms. Burrows, would you take a moment to look at the document, please, Burrows Exhibit 18. Specifically, I draw your attention to the second paragraph on the front page which says "In an effort to make inroads into this key area, extensive qualitative testing was conducted in Paramus, New Jersey, Austin,

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Texas and Denver, Colorado to better understand adult smokers as people, consumers and as smokers."
Do you see that?
A: Yes, I see it.
MR. TAYLOR: The document says what it says. It doesn't appear to me this is a document that she authored, unlike some earlier ones. Isn't it usually standard practice to ask her if she has ever seen it before?
MR. WILLIAMS: It usually is.
MR. SHONKA: We can ask that question.
Have you seen the document before?
THE WITNESS: I don't think so. I don't recall ever seeing it.
BY MR. SHONKA:
Q: Having looked at the sentence I have read to you and the document, does this refresh your recollection at all?
A: No, sir, nothing.
Q: Okay, thank you. Ms. Burrows, do you recall an analysis that you did or report that was called younger adult strategies and opportunities report?
A: Some of the words sound familiar, but I am not sure what you might be talking about.

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Q: Let me come at it this way. In the fall or in the late 1983, early 1984 time frame, what projects were you working on at Reynolds, if you can recall?
A: Late '83, early '84, is that what you asked?
Q: Yes.
A: That was when I believe I was moved to the Dick Nordine group – Dick Nordine's group, and the first assignment I recall was I was asked to do a younger adult smoker opportunity analysis.
Q: That was assigned to you by Mr. Nordine?
A: Yes.
Q: Who worked on that with you?
A: There wasn't a committee formed. Certainly Dick Nordine would have since he was my supervisor. Other people may have assisted me in collecting some data or typists, but there was no group that I recall working on it.
Q: The document was principally yours or the final product was principally yours then?
A: I would say so, yes.
Q: How long did it take you to work on that?
A: Several months. It was due by the end of the year and I didn't make the date.
Q: It was due by the end of 1983?

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A: Yes, that's my recollection.
Q: And you said earlier you started working for him in November on that time?
A: Yes.
Q: So they didn't give you much time. When you worked on the report, how did you go about doing the opportunity analysis?
A: How did I go about doing it? I wasn't real sure what an opportunity analysis was. My recollection is I asked Dick Nordine and he said something that I recall being more or less along the lines of whatever you want it to be and the suggestion was I start looking at data and see what ideas came to mind.
So it would have been more or less that process, to look at information and see if I could come up with something that would be acceptable to my boss, and that I thought was meaningful and accurate. That's about the process.
Q: Did you – when you say "looking at things," I assume that's materials. Did it include – probably library research, yes?
A: I would expect so, since I had been a librarian.
Q: Do you recall what else you did?
A: I recall looking at some data at Dick's

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suggestion, probably, from segmentation studies which had been, I think, done in his group periodically, that this might offer me something interesting to build a report from.

Q: By segmentation study, you mean the 1981, '83 studies that we touched on yesterday?

A: I don't remember the dates, but approximately every two years regular studies.

Q: So the library, the segmentation studies, what else?

A: I really don't remember what all I looked at. The library sounds very likely, and I remember looking at some data from segmentation studies at his suggestion because I think there was some footnotes that said some year segmentation study.

Q: Did you go outside Reynolds at all, any suppliers?

A: I don't believe so.

Q: So no direct contact with DRI or NFO or anybody like that?

A: I don't believe so.

Q: How about interviews, did you conduct interviews with Reynolds people?

A: With Reynolds people I don't think so. I may have asked some people what do you think a younger

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adult opportunity analysis would be or what would be interesting or something like that, but nothing I would call a real interview, no. I don't recall any.

My recollection is I went in the tank and plowed through data until I came up with something Dick Nordine liked.

Q: We saw a little earlier today how you had put that federal excise tax material together for Steve Perry. Did you receive – by way of analogy, did you receive anything from other parts of Reynolds to help you with this?

MR. WILLIAMS: Object, vague.

THE WITNESS: I don't recall any.

MR. SHONKA: I would like to have marked as Burrows Exhibit No. 19 a document dated February 17, 1984 from Richard C. Nordine to A.M. Curry, R.J. Harden, J.D. Weber, and the subject is younger adult work session.

(Burrows Deposition Exhibit Number 19 was marked for identification.)

BY MR. SHONKA:

Q: Ms. Burrows, have you seen this document before? I note that you have a CC to you, but do you recall seeing it?

MR. TAYLOR: Does she have any

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recollection?

MR. WILLIAMS: You have to ask recollection.

THE WITNESS: Let me read it.

BY MR. SHONKA:

Q: Sure, take your time.

A: I don't remember anything about this memo.

Q: Ms. Burrows, do you by chance recognize the handwritten notation in the upper corner? Do you recognize the handwriting?

A: No, sir.

Q: You have no idea who wrote absolutely superb?

A: No, I don't.

Q: This memorandum refers to a first draft, and do you know or understand this to be a first draft of your –

A: This memo?

Q: No, the reference to first – go to the third paragraph, and the sentence says "Because of the importance of this subject, we have not tried to avoid controversy, at least not in the first draft."

MR. TAYLOR: She says she has no recollection of this. Are you asking her if a specific thing refreshes some other recollection?

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MR. SHONKA: If she understand that sentence to be a reference to the first draft of her report.

MR. WILLIAMS: Objection, lack of foundation.

MR. TAYLOR: She says she doesn't remember seeing it. I guess, as I understand it, the question ought to be does this specific word or words right here cause you to refresh any recollection you might have, but –

THE WITNESS: I don't know what that means other than to read the words.

BY MR. SHONKA:

Q: Do you recall if you prepared multiple drafts?

MR. TAYLOR: Of what?

MR. SHONKA: Of the younger adult strategies and opportunities report.

THE WITNESS: Well, sir, I said before I am not 100 percent sure what document you are talking about. We have been talking about my first assignment which in my head younger adult smoker opportunity analysis was assigned. Are you talking about the report that was the output of that?

BY MR. SHONKA:



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Q: Yes. I'm not trying to confuse you.
A: I'm just trying to be accurate. I am under oath and I'm trying.
MR. SHONKA: Can we have this marked as Exhibit 20.
(Burrows Deposition Exhibit Number 20 was marked for identification.)
BY MR. SHONKA:
Q: And for the record, Burrows Exhibit 20 has been previously been marked as CX-846 in the administrative proceeding. It is a document that is stamped draft and labeled confidential at the top. It says on the cover page strategic research report. It is dated February 17, 1984. It is entitled younger adult strategies and opportunities by Diane S. Burrows.
MR. TAYLOR: It appears my copy consists of 31 pages not including the cover page that you just read about.
MR. SHONKA: That's correct.
MR. TAYLOR: So 32 pages, really.
MR. WILLIAMS: Does this document have any attachments?
MR. SHONKA: It has no attachments.
Ms. Burrows, when you are finished looking

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at the document, could you tell me if you recognize it?
MR. TAYLOR: By that, do you mean have you ever seen it before?
MR. SHONKA: Yes.
MR. TAYLOR: By that, further, do you mean have you ever seen it before as it's presently constituted, that is, with some things underlined, errors, blocks, question marks, writing?
MR. SHONKA: I referred to the exhibit, counsel, as it is presented to her.
MR. TAYLOR: Have you ever seen it as it presently exists, that is, each page with each of the notations on it as it's placed?
THE WITNESS: I'm not sure -
MR. SHONKA: Counsel, you are coaching the witness. That is improper coaching. I simply state that for the record, but go ahead, Ms. Burrows.
MR. TAYLOR: I want to make sure what the question is because I want to make sure it's a fair question for this witness. There are ways to do this and there are ways not to.
MR. SHONKA: Thank you.
THE WITNESS: I'm not sure if I have ever seen this specific set before or not.
BY MR. SHONKA:

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Q: Do you recognize the exhibit as a draft of the report that you prepared?
MR. TAYLOR: By that question, you mean just the type.
MR. SHONKA: I mean just the type without the comments.
THE WITNESS: Just the typed part?
BY MR. SHONKA:
Q: Yes.
A: It looks similar to the way I remember the report looking. I think it's reasonable to think it's probably a draft. It says draft stamped on the front.
MR. SHONKA: I am asking the reporter to mark as Burrows Exhibit 21 a document that has been previously marked as Burrows - as complaint counsel exhibit CX-847 in the underlying proceeding, and I will represent that the typed portion of the text of Burrows Exhibit 21 is the same as the typed portion of the document that has been previously been identified as Burrows Exhibit 19.
(Burrows Deposition Exhibit Number 21 was marked for identification.)
BY MR. SHONKA:
Q: The question, Ms. Burrows, is whether you recognize the handwriting on Burrows exhibit 847?

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A: No.
MR. WILLIAMS: That's actually Burrows Exhibit 21.
MR. SHONKA: I'm sorry, I stand corrected. Thank you.
Ms. Burrows, just returning briefly to Burrows Exhibit 20, which is the draft of the report, I note that we have touched upon this already. There is some printing on this document and the question I have is, do you recognize that writing?
MR. TAYLOR: Any of it?
MR. SHONKA: Any of it.
MR. TAYLOR: The only way you can do that is start on the front page and look through it.
MR. SHONKA: Okay, take your time.
MR. WILLIAMS: Counsel, you asked her to identify the printing. Do you mean handwriting?
MR. SHONKA: Excuse me, yes, handwriting.
THE WITNESS: Whoever it is can't spell. I don't know who wrote on that.
BY MR. SHONKA:
Q: You don't recognize any of it?
A: (Witness shakes head.)
Q: Thank you for looking. Do you have any recollection as to who received copies of CX-20, the

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draft report?
A: No.
Q: And by that I mean the draft report is typed without the handwritten?
A: I have no idea.
MR. SHONKA: Actually, I am going to ask the court reporter to mark two documents at one time here. One I would like to have marked as Burrows Exhibit 22 and the other as 22A.
(Burrows Deposition Exhibit Numbers 22 and 22A was marked for identification.)
MR. SHONKA: For the record, Burrows Exhibit 22 has been previously marked as CX-849. It is a memo that I will represent is the best copy that I have of a barely legible document that is dated February 28, 1984. It is a memo to L.W. Hall, Jr. from R.C. Nordine. The subject is younger adult smoker analysis.
Burrows Exhibit 22A, I will represent to you is a retyped copy or is a retyped version of CX-849, Burrows Exhibit 22.
MR. TAYLOR: Something you did to try to help us?
MR. SHONKA: Yes, it is something I had done in an effort to make Burrows Exhibit 22 readable.
MR. TAYLOR: Doesn't appear to be

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identical.
MR. SHONKA: I will represent that the typed text is to the best of our ability identical. The line – obviously the type is different, and therefore, the lines do not match.
MR. TAYLOR: I just note it because it jumps up at me that the penultimate paragraph – I always liked that word – in the penultimate line on the right side is the word quick fix. Quick fix is in quotations on Exhibit 22 and not on 22A. That just jumped at me, but what else is new.
MR. SHONKA: I would have no objection in that. I appreciate the correction.
MR. TAYLOR: That's just a comment, that's all it is.
MR. SHONKA: With that correction I believe the two are identical. I will represent them to be substantively identical to the best of our ability and –
THE WITNESS: I don't have 22A. Should I?
MR. SHONKA: I'm sorry. Ms. Burrows, have you had a chance to look at Exhibit 22 or 22A yet?
THE WITNESS: One more second, please.
MR. TAYLOR: The third paragraph in 22 it says "1984 Plan ending up with all of our new

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established brands." It looks to me like on 22 there is a slash between new and established.
MR. SHONKA: If there is, I give you credit for wonderful eyesight.
MR. TAYLOR: I don't have that. I just see a –
THE WITNESS: I think I see it, too.
MR. TAYLOR: I guess it doesn't change anything substantive.
THE WITNESS: I have looked it over.
BY MR. SHONKA:
Q: Ms. Burrows, the reference to in the subject line is younger adult smoker analysis. Was your report sometimes referred to by that name?
A: I think it was.
Q: The first paragraph includes a reference to Tom Rucker.
A: Yes.
Q: Do you know who he is?
A: Yes.
Q: Who is he?
A: At that time he was a lawyer for RJ Reynolds.
Q: Is he still with RJ, if you know?
A: I don't really know.

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Q: I draw your attention to the fourth paragraph and I refer you to the sentence that says "After all, younger adult smokers have been high in the company's priorities for ten or more years. Yet, our performance is at a ten year low."
Do you see that?
A: Yes, I see it.
Q: Do you have an understanding as to what those two sentences mean?
MR. WILLIAMS: Object, lack of foundation. She didn't write this.
THE WITNESS: I can read the words and they sound clear. I don't know any meaning beyond that.
BY MR. SHONKA:
Q: Do you recall what the company's priorities were or did you know what the company's priorities were regarding younger adult smokers in 1984?
A: No, sir.
Q: Did you, in 1984, after having completed a draft of a younger adult analysis report, have an understanding as to the company's performance?
MR. WILLIAMS: Objection, lack of foundation.
THE WITNESS: I think there was something about the company's performance among younger adult

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smokers in the report itself, and certainly I saw data from time to time on the company's market share among 18 to 24 year old smokers. Is that what you want to know?

BY MR. SHONKA:

Q: Other than what's in the report, you would have no recollection today as to how it was in 1984?

MR. TAYLOR: I don't think she has any recollection today of what's in the report. I don't think you are trying to ask a trick question. Perhaps maybe you just want to unartfully word it.

THE WITNESS: My recollection is the report pointed out that RJR brands performed poorly among younger adult smokers, and whether it was a ten year low, I am not sure.

MR. SHONKA: I ask the court reporter to please mark as the next exhibit, which is Burrows Exhibit 23, a document that has the Reynolds bates number 502756957. It is a document labeled MDD abstract form and it's dated February 29, 1984.

(Burrows Deposition Exhibit Number 23 was marked for identification.)

BY MR. SHONKA:

Q: Ms. Burrows, is that your signature on the bottom of Burrows Exhibit 23?

A: It looks like it.

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Q: Can you tell me what Burrows Exhibit 23 is?

A: I think it is a library sheet, that after I left the library they implemented a procedure to assist the library in sort of indexing things and referring people to documents where there was this form was filled out to be a brief abstract of materials that were to be filed in the library. Key words would be indexing terms for library purposes.

Q: Yesterday you had indicated that while you worked in the library you did some indexing for reports and other documents that were submitted to the library –

A: Notations or something along those lines, yes.

Q: Is this the same type of document that was prepared in the library?

A: No, it isn't. It was much more informal while I was in the library.

Q: The reference to key words at the bottom, does this mean that the documents are researchable on a computer?

MR. WILLIAMS: Which –

BY MR. SHONKA:

Q: Were those produced with computer searches for the documents?

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MR. WILLIAMS: Which documents are you talking about, this particular document?

MR. SHONKA: Yes, I'm talking about Burrows Exhibit 23.

MR. WILLIAMS: But is your question generally?

MR. SHONKA: Generally.

MR. TAYLOR: I thought the question you asked was were these words put into a computer for some sort of search or something.

BY MR. SHONKA:

Q: Are you familiar with MDD abstract forms generally?

A: Only very vaguely.

Q: Did you prepare more than one MDD abstract form?

A: I'm not certain that I prepared this form. It is possible that someone else prepared the form with or without my input and asked me to sign to say that it was a suitable reflection of the report. I am not sure who prepared this.

Q: Do you have an understanding of whether Reynolds documents that are on file in the library can be searched from desk top computers at any place in Reynolds?

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MR. TAYLOR: Today or in 1984?

MR. SHONKA: 1984.

THE WITNESS: I don't think there were any desk top computers at Reynolds in '84. It's possible, but not many.

BY MR. SHONKA:

Q: How about in 1984, was it possible to do computer searches for documents within particular, within offices or divisions of Reynolds?

A: I don't think so.

Q: Do you know if documents in 1984 were put onto the computer system in full text version?

A: I don't know for sure. I believe not.

Q: Were they put on in full text version at any time while you were there?

A: Not that I know of.

Q: Do you have any understanding – referring to Burrows Exhibit 23, do you have any understanding as to why the key words appear at the bottom of the page?

A: I believe I do.

Q: What is that understanding?

A: Those were what old time librarians would call the subject headings, that if one were looking for the subject of younger adult smokers, it would be appropriate that the document referenced would be the

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kind of document one might offer up to somebody searching for material on younger adult smokers, a subject heading, an ordinary library term.

Q: Do you know if in 1984 there was a general practice of putting key words – of including key words on abstract forms?

A: They look normal being on this form. I assume it's a standard form. I really don't have any detailed knowledge with that.

MR. SHONKA: I ask the reporter to mark Burrows Exhibit 24.

(Burrows Deposition Exhibit Number 24 was marked for identification.)

BY MR. SHONKA:

Q: It's a document that bears the Reynolds bates numbers of 501431517 through 501431610. It is a document called strategic research report. It is dated February 29, 1984. It is to Mr. G.H. Long, Mr. M.L. Orlowsky, O-r-l-o-w-s-k-y, Mr. H.J. Lees and the title is younger adult smokers, strategies and opportunities.

MR. TAYLOR: This appears to be a clean copy without any remarks or anything on it. Do you have any knowledge to the contrary?

MR. SHONKA: No. So far as I know it's a clean copy.

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MR. TAYLOR: Obviously there is a mark in the margin.

BY MR. SHONKA:

Q: Ms. Burrows, I ask you to take your time and look at the document, and I ask if you prepared it?

A: If I –

MR. TAYLOR: You want us to answer the question today?

THE WITNESS: It looks like it probably is a copy of a report that was issued from me, yes.

BY MR. SHONKA:

Q: Ms. Burrows, a little earlier, a few minutes ago we were talking about a report that you spent some time preparing, and the question is, is this report the final product of the research that you undertook?

A: I believe it probably is.

Q: Do you have any reason to doubt that it is?

A: No, I don't.

MR. TAYLOR: Again, she hasn't analyzed each and every page of this. I would hope you wouldn't need for her to do that, nor check it against whatever she might who knows what to check with.

THE WITNESS: I wouldn't know how to tell you word by word under any circumstance.

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MR. SHONKA: Off the record for just a minute.

(Recess was taken from 3:20 p.m. to 3:30 p.m.)

BY MR. SHONKA:

Q: Ms. Burrows, you still have before you Burrows Exhibit 24?

A: Yes, I do.

Q: I would ask you to take a look at Roman small I, which is the – about the third page of the document.

A: Okay.

Q: If you could look at the final three paragraphs of that page where it says, "Thus, the annual influx of 18 year old smokers provides an effortless momentum to successful first brands. Marlboro grows by about .8 points a year due to 18 year old smokers alone. On the other hand brands/companies which fail to attract their fair share of younger adult smokers face an uphill battle. They must achieve net switching gains every year to merely hold share."

MR. WILLIAMS: What page are we on here?

MR. SHONKA: Small I. It's the third page of the document. Are you with us, John?

MR. WILLIAMS: Yes.

BY MR. SHONKA:

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Q: "By not attracting its fair share of 18 year old smokers, RJR yielded a .5 point ingoing share advantage to PM in 1983." Let me stop there.

PM is a reference to Philip Morris?

A: Yes.

Q: Continuing, "Marlboro and Newport, the only true younger adult growth brands in the market have no need for switching gains. All of their volume growth can be traced to younger adult smokers and the movement of 18 year olds, which they have previously attracted into older age brackets where they pay a consumption dividend of up to 30 percent. A strategy which appealed to older smokers would not pay this dividend."

Does this paragraph mean that switching is not a cost effective way of attracting new customers for a brand?

A: I wouldn't have thought in terms of cost effectiveness in those days. It could still be profitable to attract switchers at older ages, I believe, not really knowing any numbers at this point.

Q: I want your reference point to be 1984 when you wrote the document.

MR. TAYLOR: Then you need to ask the question. You asked what it means and not anything to do with a reference point, so –

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BY MR. SHONKA:

Q: Does it mean that switching -

MR. TAYLOR: Did it mean to her in 1984 when she wrote it that switching was not cost effective?

THE WITNESS: No, it didn't.

BY MR. SHONKA:

Q: Does it mean that now in light of 1984 data?

MR. WILLIAMS: I object as vague. Does this - I'm sorry, Dave, does this three paragraphs you read mean now that switching is not cost effective?

MR. TAYLOR: Even though it didn't then?

MR. SHONKA: Did it mean that switching was not cost effective in 1984? What she said is she didn't think that.

THE WITNESS: I didn't think in terms of cost effectiveness. I don't know whether it would have been or not in 1984, even now.

BY MR. SHONKA:

Q: Would you explain to me what you meant by the three paragraphs, please?

A: Is it possible that the word dividend is key in underlying your question? That word links up in my mind with cost effectiveness, so I was wondering if that's what you were driving at.



Q: I was not focusing on dividend. What I want at the moment is what you meant when you wrote these paragraphs.

MR. TAYLOR: As opposed to the whole report, what she meant when she wrote these paragraphs?

THE WITNESS: I am having a hard time pinning down how to respond to a what did I mean question. I thought, still think, the words themselves are fairly clear.

The point that would have been in my mind in using words like this would have been that I thought many in the company did not know the importance of younger adult smokers to the market, did not understand how Marlboro could gain share every year while Reynolds switching data said gained switchers, but then they lost share, that there was a general lack of understanding among many people in higher positions than I that they did not understand that this aging dynamic existed. I was trying to drive home the points that switchers at age 35 or whatever was not the only way that brand shares changed, and that the company should not ignore the importance of younger adults to their business.

BY MR. SHONKA:

Q: You made a reference a moment ago to this aging dynamic and by that could you elaborate on that a little bit, please?



A: Related to the aging dynamic is the first sentence of the paragraphs you drew my attention to, the last three paragraphs on this page I, the annual influx of 18 year old smokers provides an effortless momentum to successful first brands, Marlboro grows by about .8 share points per year due to 18 year old smokers alone, followed by RJR. I believe that means loses a half a point a year.

The last sentence of the second paragraph RJR yielded a .5 point ingoing share advantage. I think I must have meant loses .5 share points a year by virtue of the fact that their brands were unattractive to younger adult smokers, and that is the portion of an aging dynamic that I was focusing on at that time.

Q: So in the third sentence, can you elaborate on that first sentence there in the second paragraph that I had read, the one that says on the other hand brands, companies, which failed to attract their fair share of younger adult smokers face an uphill battle?

A: Yes. That means if my brand or company has a 20 share of market, 18 plus and 20 percent of 18 year old, less than 20 percent of 18 year old smokers choose my brand, then the dynamic would cause my brand or company to decline in market share eventually.



It is after that time or at some point in time smokers become loyal to a brand, many do, and it is very difficult to get them to switch brands. So that's an uphill battle.

Q: It is better for the company to get smokers to buy their cigarettes as the smokers first brand than it is if the company - if the smoker adopts the brand later by switching?

MR. WILLIAMS: Objection, leading, lack of foundation, mischaracterization of testimony.

MR. SHONKA: Is that correct?

MR. WILLIAMS: Same objection.

THE WITNESS: It is less work in my opinion for a company or a brand to become the brand choice of a smoker as their first usual brand, which is distinguished from the first cigarette or pack of cigarettes they may ever use or as soon thereafter as possible before loyalty within that smoker and familiarity and all of the attributes of loyalty become so strong that that smoker will not be interested in switching to another brand.

BY MR. SHONKA:

Q: Is brand loyalty a deterrent to switching?

A: Yes, sir.

Q: Is it a major deterrent?

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R.J. REYNOLDS TOBACCO COMPANY EXHIBIT

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A: In my opinion, yes. There have been different opinions at different times in the marketplace and so forth and so on, but my opinion for the periods of cigarette history that I studied, was that loyalty is the driving force of the market in that at some stage most smokers that I was aware of adopt a brand as my brand and will give strong preference to that brand over others, so they wouldn't switch.

Q: That's helpful, thank you. If we go further back in Burrows Exhibit 24, there is a page with an Arabic number two.

A: Is that the regular numbers?

Q: Yes, I'm sorry. If it helps you, the page that precedes that is labeled section one, the importance of younger adult smokers.

MR. TAYLOR: This little number here is 1526.

THE WITNESS: I think I'm on the right page.

BY MR. SHONKA:

Q: I draw your attention to the line, underscored line that begins with the number two near the bottom of the page and it says market share, dash, a first brand advantage.

A: Yes.

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Q: And by first brand – you mentioned this term a few minutes ago, also – is there a difference between first brand and first usual brand?

A: There should not be.

Q: On the next page, the last line says "Once a brand becomes well-developed among younger adult smokers, aging and brand loyalty will eventually transmit that strength to older age brackets."

A: Yes.

Q: Is that a reference to your earlier answer – kill that question, never mind, withdraw it.

Is the sentence at the bottom of page three – back up. I will try it a third time.

Where you say aging and brand loyalty will eventually transmit that strength to older age brackets, would you tell me what you meant by that?

A: If my brand has a 60 share among 18 to 24 smokers and a lower share among older groups and continues to maintain a 60 share among 18 to 24 year old smokers, eventually people who have been 18 to 24 in the past will fill the market and my brand will have a 60 share.

It's sort of a theoretical world, but that was the thrust of it.

Q: If we could just go all the way back to

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page 40 of the document which has bates number 501431572. The bottom full paragraph above the bullet point says "If RJR achieves first entry with a social acceptability brand, younger adult smokers are more likely to adopt it if the brand proposition is as positive and mainstream as possible."

Do you see that?

A: Yes, I do.

Q: What do you mean by social acceptability brand?

A: A cigarette that in some form or fashion would help smokers avoid irritating others with their smoking. We had an example that not everyone appreciates being around a smoker and a social acceptability brand would somehow offset that possibility of confrontation or offense from smoking near others.

Q: So the record is clear here, since I think a lot of what happened yesterday was off the record, your reference just a moment ago was to an incident involving some discomfort by the court reporter yesterday with cigarette smoking?

MR. TAYLOR: I would say rudeness by the court reporter.

MR. SHONKA: I don't want to characterize

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it that way.

MR. TAYLOR: I would say rudeness rather than discomfort by the court reporter.

THE WITNESS: That's the kind of issue that is a social acceptability issue, yes.

BY MR. SHONKA:

Q: What about peer pressure, is that a social acceptability issue?

A: No, a social acceptability brand would have nothing to do with peer pressure or peer acceptance. Social acceptability is as I tried to indicate.

Q: Just for my own reference here, there is sometimes a reference to peer pressure and sometimes a reference to peer behavior.

In your mind, is there a difference between the two?

MR. TAYLOR: Are you saying referenced in a report she wrote?

MR. SHONKA: Not in reference to the report at all. I have seen two terms in various Reynolds documents and I am asking for the witness' understanding as to the two terms only.

THE WITNESS: I'm not aware there is any specific definition associated with either one of those other than common language.



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BY MR. SHONKA:
Q: What role, if any, does peer acceptance play in, first, usual brand choice?
MR. WILLIAMS: Can we have the context of this or are you asking her as an expert? Object, it's vague and undefined.
THE WITNESS: I don't have a measurement of it. I think it's pretty much common knowledge that many people choose a brand based on what their friends, or in the case of a married couple, what their spouse smokes, and I don't know how to quantify it.
BY MR. SHONKA:
Q: If I could draw your attention back to Exhibit 23, which is the coding form. It should be the coding form.
MR. TAYLOR: MDD abstract form.
BY MR. SHONKA:
Q: I notice one of the terms coded in that is social acceptability.
A: Yes.
MR. TAYLOR: Meaning key words.
MR. SHONKA: In the key words, and the question I have is, is the term social acceptability a term that was in common use throughout Reynolds to the best of your knowledge in 1984 when you wrote this

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document, this document being Exhibit 24?
THE WITNESS: Having looked at this report and so forth, I believe it was.
BY MR. SHONKA:
Q: Does the term group sociability mean anything to you?
A: Not really.
Q: You never heard the expression, that you recall?
A: It wasn't a big buzz word. I don't remember.
Q: According to the date on this document, this document being Burrows Exhibit 24, it was circulated or it is dated February 29th. What happened after that – what's the first thing you are aware of after the report went out?
A: I really don't know. My first thought was I probably took a couple days off. I'm sorry, I don't know what the first thing would have been.
Q: Did you get any feedback?
A: Whether it was the first thing or not, I got some complements on the report.
Q: Do you recall from whom?
A: Well, Dick Nordine for one. I don't really – no, I do recall a complement from Larry hall. He

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said it read like a novel. That's what I recall.
A: I think it was a complement. I thought so.
Q: Sounds like one to me. You mentioned Larry Hall. Did you see him regularly at this time that you recall?
A: Not very regularly is what I recall.
Q: Do you recall the context of that comment to you?
A: He was over in the corner of the building and stuck his head in the door, I think was the situation.
Q: He came by your office?
A: Well, I don't think it was a special trip, but he was in the neighborhood is the way the picture comes to mind, and stuck his head in the office and said I read your report, it read like a novel, something like that.
Q: He was at this time the vice president of brand marketing, I believe, based on Reynolds Exhibit 1 there?
MR. WILLIAMS: He was what he was.
BY MR. SHONKA:
Q: Does that sound right to you?
A: No, I believe he was involved in the marketing research department still. I'm not exactly

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sure of his position, but it was market research.
Q: The Burrows Exhibit 1, page five indicates that Larry Hall was in February of 1982 vice president of brand marketing. Do you have any reason to doubt the accuracy of this, of Burrows Exhibit 1?
A: On what date, February of 1984, as I read it, he was called vice president of marketing development and I believe marketing development department was the name that they had on marketing research that year or some surrounding years. They kept changing the name of the department.
Q: So vice president of marketing and development was part of research at that time?
A: That would have been probably the head of the market research department in plain English.
Q: Thank you for clearing that up. Head of marketing research, you said?
A: That's the way I translate vice president of marketing development, yes.
Q: That's how you think of it?
A: Yes.
MR. SHONKA: I ask the reporter to mark as Burrows Exhibit No. 25 a document that has the bates number 502635163, and that has been previously marked as CX-76 on the underlying proceeding. There is a memo

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dated March 30, 1984 from L.W. Hall, Jr. to J.R. Moore, E.J. Fackelman, E.N. Monahan, and J.L. Gemma.

(Burrows Deposition Exhibit Number 25 was marked for identification.)

BY MR. SHONKA:

Q: Ms. Burrows, I ask you if you have ever seen Exhibit 76 before?

A: I don't know.

Q: Exhibit 76, the first paragraph says Mr. Long again –

MR. TAYLOR: Exhibit 25.

BY MR. SHONKA:

Q: Exhibit 25, the first sentence says "Mr. Long again emphasized to me that we should very tightly restrict distribution on this report," and the question is, did anyone ever tell you that circulation of your February 29th report, Burrows Exhibit 24, was being restricted?

MR. WILLIAMS: I'm going to object to lack of foundation. Why don't you establish first this letter is referring to her report.

MR. SHONKA: I believe the record already indicates – the witness says she understands the younger adult smoker to be a reference to her report, but we'll go through the steps. Do you understand –

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THE WITNESS: You could ask me about Exhibit 24.

BY MR. SHONKA:

Q: Ms. Burrows, do you understand that younger adult smoker report is a reference to Exhibit 24, Burrows Exhibit 24?

A: It could be, but many other things could have been called that, also.

Q: Were you aware of any other documents at that time that would have been called that or might have been called that?

A: No, not really.

Q: Did anyone ever tell you that circulation of your report was being restricted?

A: Yes.

Q: Who told you that?

A: Dick Nordine.

Q: Did he tell you why?

A: He said, as I recall, Mr. Long didn't want everybody and his brother making copies of this and running them all over the world.

Q: Who was Mr. Long at that time? What position did he hold?

A: Something on the order of president of the tobacco company or I might be off by some title or something.

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Q: But he was pretty far up the chain?

A: He was the big guy as far as I was concerned.

Q: In terms of your career, what happened after – the first major thing that happened to you after you finished your report?

A: In terms of my career?

Q: At Reynolds, yes.

A: I continued to work for Dick Nordine for another year or something like that.

Q: Anything else?

A: I don't know when I next got promoted.

Q: Did your responsibilities change immediately in the next several weeks, say, after the report was completed?

A: I'm sure I was given some more work to do, which would have been a different assignment on a different topic. I don't remember what exactly came next.

Q: Anything else, and I'm talking within the several months after?

A: I did several other presentations and reports and whatever form they took while I was in his group. There was some further younger adult smoker,

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another younger adult smoker related project that came up at some point afterwards.

Q: What do you mean by presentations?

A: That would – by presentation I mean somebody stands up and talks you through either a deck or just talks as opposed to writing a report.

Q: I think you use used the term yesterday chalk talks. Is that –

A: I don't know where that came from. I rarely did chalk talks.

Q: What do you mean by that term?

MR. TAYLOR: Which term?

MR. SHONKA: Chalk talks.

THE WITNESS: Well, what I meant was where somebody stands up at a blackboard with a piece of chalk like a teacher in a school room, but I don't know why that term came into my head yesterday. That's not something I have done since I taught school.

BY MR. SHONKA:

Q: Did you make presentations relating to the report?

A: To this report.

Q: This report, meaning Burrows Exhibit No. 24?

A: Relating to, meaning covering materials

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similar to what is in this report?
Q: Yes.
A: No.
Q: Did you make any presentations concerning the subject of the report at all?
A: Concerning younger adult smokers?
Q: Yes.
A: Yes. As I mentioned a minute ago, there was a later project related to younger adult smokers, also.
Q: Any presentations you made were in relation to the later project, not to this project, this project being Exhibit 24?
A: That's my recollection.
Q: What are projects YAX and DB? Does that term mean anything to you?
MR. TAYLOR: Is that one question?
MR. SHONKA: It is one question?
MR. TAYLOR: What does the term YAX mean to her?
MR. SHONKA: And DB. Let me back up. Projects YAX and DB, do you know if that is one project or two projects?
THE WITNESS: I don't know.
BY MR. SHONKA:

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Q: Does either term mean anything to you at all?
A: No. DB is my initials, but –
MR. TAYLOR: Plural on the projects, but suggests that it means something to the question in her –
MR. SHONKA: I would like to have the document marked as Burrows Exhibit 26. It is a document that has been previously marked as CX-56. It has a cover page that has a file number 84-44303 inked in, and the cover page says MDIC marketing development intelligence center.
(Burrows Deposition Exhibit Number 26 was marked for identification.)
BY MR. SHONKA:
Q: Ms. Burrows, on the second page of the exhibit, are those your initials at the bottom of the page?
A: They look like it.
Q: I asked you to focus on the paragraph that begins "Action To Be Taken:" and you will see at the end of the paragraph there is a reference to projects DB and YAX.
A: Okay.
Q: Does this refresh – does your review of

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this, of Burrows Exhibit 26, refresh your recollection at all as to those terms?
A: Not really. There is some information in the sentence, but it doesn't remind me of anything.
Q: Can you glean any information about the projects from looking at Burrows Exhibit 26?
A: From reading the sentence I would say that some group called new brands had projects DB and YAX.
Q: And you have no recollection of those projects?
A: No. I mean, the sentence could well have been included to further justify the cost of buying this data, was that somebody else could use them also, and I don't know what those were.
MR. SHONKA: I ask the reporter to mark Burrows Exhibit 27.
(Burrows Deposition Exhibit Number 27 was marked for identification.)
BY MR. SHONKA:
Q: It's a document that has been previously marked as CX-657. It is a document that is entitled younger adult smoker analysis and it bears the bates numbers 502033345 through –
MR. WILLIAMS: Before we go on, can we get a copy?

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MR. SHONKA: I'm sorry. Again, the bates numbers are 502033345 through 3359.
MR. TAYLOR: Upside down I will note.
BY MR. SHONKA:
Q: Ms. Burrows, take your time to look at it, but the question is going to be, did you prepare Burrows Exhibit 27?
A: I don't know.
Q: You do not recognize the document?
A: Not really. Some of the content is similar to some things I did, but I don't remember it at all.
Q: Does the term white paper have any meaning to you?
A: Some.
Q: In the context of Reynolds?
A: Yes, some.
Q: What is that?
A: Dick Nordine's group sometimes issued reports that were called white papers, and I believe it was a term somewhat popular in the world at large in perhaps the '80s for think tank pieces perhaps or kind of an academic character. I am not giving a very good definition, but some of the reports from Dick Nordine's group, as I recall it, were called white papers.
Q: Ms. Burrows, do you consider Burrows

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Exhibit 27 to be a white paper?
MR. WILLIAMS: 27?
MR. SHONKA: Burrows Exhibit 27.
THE WITNESS: From my general knowledge, I would think not.

BY MR. SHONKA:

Q: Is there a term in Reynolds that would characterize documents that appear to have the style of Burrows Exhibit 27?
A: Usually our presentations. That's what leaps to my mind.
Q: And is there any term that might describe a document like –
A: The only one I can think of.
Q: How are you feeling, by the way?
A: Okay.
Q: I mean, if you want a break we can take one now or we can keep going. It's up to you.
A: I'm still maintaining some hope of finishing expeditiously.
MR. WILLIAMS: Are we going to take some break before 5:00 o'clock or do you want to push through to 5:00.
MR. SHONKA: Whatever everybody wants. If people want a break we can take a break. I am organized



enough for my next block of questions.
MR. TAYLOR: Should that take you to 5:00 o'clock roughly?
MR. SHONKA: Probably.
MR. TAYLOR: Why don't we just stretch a minute.
(Recess was taken from 4:15 p.m. to 4:30 p.m.)
MR. SHONKA: I will mark the next exhibit as Burrows Exhibit No. 28.
(Burrows Deposition Exhibit Number 28 was marked for identification.)

BY MR. SHONKA:

Q: Burrows Exhibit 28 is a document that's been previously been marked as CX-21. It consists of several handwritten pages that the first page does not have a bates number on it.
MR. TAYLOR: Mine has 0907 as the last four. Mine says 503570907 is my first one and it goes to 0949.
MR. SHONKA: 0949?
MR. TAYLOR: Yes. I tell you, it looks funny because the one in front of 0949 looks like 0941 and the one in front of that looks like 0947.

BY MR. SHONKA:

Q: The question is simple, I think. Ms.



Burrows, do you recognize the handwriting in Burrows Exhibit 28?
MR. TAYLOR: On any of the pages?
MR. SHONKA: Yes.
MR. TAYLOR: You need to flip through the pages.
MR. WILLIAMS: How many pages is this exhibit?
MR. SHONKA: I don't know. We read off the page numbers.
MR. WILLIAMS: The first page, CX-21, does that appear at the bottom?
MR. SHONKA: Yes.
THE WITNESS: The only handwriting I think I recognize is on the page numbered 503570934, which I think contains some of my handwriting relating to Jovan Musk Oil.

BY MR. SHONKA:

Q: Ms. Burrows, do you know who wrote the rest of the document other than –
MR. TAYLOR: I think she already answered that.

BY MR. SHONKA:

Q: Other than the passage that you pointed out on page 570357 –



A: I don't recognize any of the other handwriting.
MR. SHONKA: I ask the reporter to mark as the next exhibit, Burrows Exhibit 29.
(Burrows Deposition Exhibit Number 29 was marked for identification.)

BY MR. SHONKA:

Q: It's a document that has previously been marked as CX-8 in the underlying proceeding, administrative proceeding. In a box in the upper left corner of the page it says question, and in the center of the page it says or asks are younger adult smokers important. The document bears the bates numbers 502996233 to 502996639.
MR. WILLIAMS: I'm sorry, 6639 is the last?
MR. SHONKA: That is how I read it.
MR. WILLIAMS: I have 6317 being the last.
MR. TAYLOR: I have 6338 being the last.
6338 is my last. This is my last page.
MR. SHONKA: What's your last page?
MR. WILLIAMS: 6317. It talks about brand attitude.

BY MR. SHONKA:

Q: Ms. Burrows, what is your last page, if I might ask?

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A: 502996339.
Q: That is what I have.
MR. TAYLOR: Well, I guess I can make the other copies.
MR. SHONKA: Basically I wanted to find out if she prepared the document in its original format, whatever that may have been.
THE WITNESS: I don't know about this particular document. I don't know whether or not I prepared it.

BY MR. SHONKA:

Q: You indicated earlier that you had worked on a younger adult smoker analysis. Do you recall that testimony?
A: Yes, more than one, actually, but, yes.
Q: After you finished the February 29th report which we previously marked as Burrows Exhibit 24, after you finished that document, you worked on a younger adult smoker analysis or on several, more than one?
A: Yeah, whatever I called it. Yes, that there was another project related to younger adult smokers, yes.
Q: Can you tell me about that project, please?
A: The basic impetus for it was that – the words that come to mind is okay, now we know younger

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adult smokers are important, what do we do about it. Dick Nordine was asked to do a project directed to that question, what do we do about it, and I was involved in that project.
Q: Did you have primary responsibility for it?
A: No, I wouldn't say that I did. That was more a team effort.
Q: How many people worked on that?
A: It could have been a larger number of people involved. My recollection is there were mainly three of us at Reynolds who worked on it regularly.
Q: And other people outside of Reynolds?
A: There was a supplier involved in that project.
Q: Do you recall who the supplier was?
A: A name comes to mind, but I'm not sure, it could have been Dick Westwood was the man's name that I – that comes to mind. I don't know what the company name would have been.
Q: What was involved in the analysis in the project?
MR. WILLIAMS: This is the second project, the what do we do about it project?
MR. SHONKA: Yes, the one following the February 29th.

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THE WITNESS: The way I recall it, it spanned quite a long period of time, maybe six months and that a lot of pieces went into it. One of them was quite a few focus groups with younger adult smokers and I know there were a lot of other components that are not leaping to mind at the moment.

BY MR. SHONKA:

Q: This project ran about six months you said?
A: That's my recall. We spent quite a long while.
Q: Did it culminate in a report, in a formal written report?
A: No. It culminated in a presentation.
Q: And the presentation, by a presentation, you mean only one presentation or one – do you mean only one presentation?
A: The culmination was only one presentation as far as I know.
Q: Earlier you had identified a document that was labeled younger adult smoker analysis as it was – I asked if it was a white paper.
MR. TAYLOR: 27.
MR. SHONKA: Burrows Exhibit 27, yes. Would you take a look at that. Is that the presentation that culminated, that being Burrows Exhibit

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27, is that the presentation that resulted from –
THE WITNESS: The second phase, what to do about it?

BY MR. SHONKA:

Q: Yes.
A: No.
Q: Do you remember when you gave that presentation that you are talking about?
MR. WILLIAMS: Which presentation?
MR. SHONKA: The presentation that culminated in the second part, the what to do about it part of the study.
THE WITNESS: When I gave it?

BY MR. SHONKA:

Q: Approximately.
MR. WILLIAMS: I'm not sure there is foundation. Did she testify she gave it? I thought she said there was a presentation.
MR. TAYLOR: You are correct.

BY MR. SHONKA:

Q: Did you give a presentation?
A: Yes, I did.
Q: Do you remember when?
A: I gave it a lot of times.
Q: Now I am confused. You said there was one

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presentation. Could you clarify. Would you clarify, please?
A: I didn't mean one session. I don't remember what date the presentation was first shown to people outside the work group that had worked on it.
Q: And that would be Dick Nordine's group?
A: Dick Nordine, yes, right. I think it would have been, yes, Dick Nordine's group. I don't remember the date. I could take sort of a guess at it if you wanted?
MR. TAYLOR: I instruct you not to guess.
MR. SHONKA: You don't need to here. I ask the reporter to mark as an exhibit, Burrows Exhibit 30.
(Burrows Deposition Exhibit Number 30 was marked for identification.)
BY MR. SHONKA:
Q: It is a two page document with the bates numbers 507545611 and 5612. Ms. Burrows, have you had a chance to look at Exhibit 30 yet?
A: Yes.
Q: There is a reference in here to a FUBYAS, F-U-B-Y-A-S, presentation. Is this the presentation that you were referring to when you say you gave your presentation at the end of the second phase?
A: I believe it would be. That was a common

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nickname for that presentation.
Q: And FUBYAS stands for what?
A: First usual brand younger adult smoker.
Q: What does that mean?
A: What does that mean? That term I think was defined in Exhibit 24. Those smokers who are younger adults 18 to 24 and have not yet formed a very strong brand loyalty.
Q: I had earlier asked you if there was a difference between first brand and first usual brand, and you said not intentionally in reference to one exhibit, and then – or words to that effect. Is there a difference between first brand, first usual brand and a first usual brand younger adult smoker?
A: Well, the first usual brand would be a product, okay, pack of cigarettes or a brand name. The first usual brand younger adult smoker is a person.
Q: Who smokes the first usual brand?
A: Right.
MR. SHONKA: If you take a look at – I'm going to mark the next exhibit.
(Burrows Deposition Exhibit Number 31 was marked for identification.)
BY MR. SHONKA:
Q: This Burrows Exhibit 31 has previously been

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marked as CX-77. It is a memo from Ms. Burrows to R.C. Nordine dated September 17, 1984. I ask the witness to take a look at the document, to read it completely, please.
Have you read the document?
A: Yes, I have.
Q: That is your signature on it?
A: It looks like it.
Q: The first sentence refers to an attachment. It says "Attached is a summary of basic transactional analysis structure and tenets."
A: Yes.
Q: Do you know what that refers to?
A: What the attached thing was?
Q: Yes.
A: No, I really don't.
Q: Do you have any idea?
A: Well, I know what transactional analysis meant. I have no idea what the summary or document or something was.
Q: What does transactional analysis refer to?
A: It was a pop psychology thing that was, I guess, popular around that time, and I had gotten interested in the pop psychology.
Q: I didn't ask you your educational

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background. Did you ever take any psychology courses?
A: I expect I had one in undergraduate school.
Q: But no postgraduate work with it?
A: I think maybe that group dynamics course I mentioned as personal enrichment might fall under psychology, but I'm not sure it was the psychology department or not.
Q: What you are saying is you developed an interest in psychology or pop psychology in 1984?
A: Yes.
MR. WILLIAMS: Objection, characterization.
MR. TAYLOR: That's probably not important but that's not what she said. You said she developed an interest in 1984. She never said when she developed an interest.
BY MR. SHONKA:
Q: And you had that interest in 1984?
A: Yes, I recall that that was something I was interested in.
Q: And so transactional analysis refers to an article that you had appended, do you recall?
A: I don't really recall what it was. It could have been an article.
Q: Let me cut through this. At one point some months ago it was represented to us that a document that

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is much like what we have labeled as CX-8 are younger adult smokers important was the attachment to CX-77.

MR. TAYLOR: Which is CX-8? What's our number?

MR. SHONKA: Burrows Exhibit 29.

MR. TAYLOR: Which is?

MR. SHONKA: The are younger adult smokers important.

MR. TAYLOR: The question to you is, does she believe that 29 was?

THE WITNESS: Was the attachment to Exhibit 31.

MR. TAYLOR: Without reference to whatever it was represented to you, I would rather you ask her if you thing this is that.

THE WITNESS: I don't think anything similar to Exhibit 29 would be the attachment that I would characterize that way for Exhibit 31.

BY MR. SHONKA:

Q: The next paragraph says, "Note that the driving motivation is getting strokes - positive if possible but negative is better than none. In fact, some people can only handle negative strokes. Thus rebellion as a reason for smoking, can have double payoff: negative strokes from parents, school, etc. and,

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perhaps, positive strokes from other youth among peers. This fits your idea that social permission to smoke, (e.g., by schools) is likely to discourage rather than encourage smoking."

A: I see the paragraph.

Q: There is a reference there to Mr. Nordine's idea. Can you elaborate on what he told you his idea was?

A: The general drift.

MR. TAYLOR: Do you have a recollection of what he said without guessing?

THE WITNESS: I think I know what I meant by this sentence. I don't specifically recall words Mr. Nordine said to me about his idea.

MR. TAYLOR: As long as you are - as long as the record indicates what she is responding to, that's all I care about.

BY MR. SHONKA:

Q: What did you mean by the sentence?

A: What I meant by this, the idea that I believe I was reflecting by this sentence was that Mr. Nordine held the idea that telling people to not smoke might, in fact, encourage them to do so if they were of a rebellious bent.

Q: Then in the last paragraph you make a

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reference to the idea of "congruence discussed in the journal of advertising research" - I will read the whole paragraph.

"The second section (on Transactions) could relate to the messages delivered by advertising as well as between individuals and may not be as pertinent to the phase of the project as later on except for the idea of congruence discussed in the Journal of Advertising Research article you've already seen."

What project were you referring to in that paragraph?

A: From the timing and so forth, I would say that it referred to this follow-up younger adult smoker project.

Q: Then you said "except for the idea of congruence discussed in the Journal of Advertising Research article." Does that ring a bell?

A: I have no earthly idea about the Journal of Advertising Research at this stage, nor what congruence was.

MR. SHONKA: I ask the reporter to mark Burrows Exhibit 32.

(Burrows Deposition Exhibit Number 32 was marked for identification.)

BY MR. SHONKA:

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Q: Burrows Exhibit 32 is a multi-page document that begins on bates number - it has previously been marked as exhibit CX-404 in the underlying proceeding and it bears the bates numbers 503020443 through 503020540.

Ms. Burrows, do you recognize Exhibit 32?

A: Some portions of it look familiar to me.

Q: What do you mean by that?

A: I mean it's a big document and I don't know about every bit of it. I see portions that look familiar to me as I look at them.

Q: Did you write portions of this, of Exhibit 32?

A: I drew portions of it, and I'm sure I participated in the writing or development of some of this material.

Q: Could you tell us what Exhibit 32 is?

A: It appears to me to be some version of the kind of presentation at least that was the culmination of this phase two or follow-up younger adult smoker work.

Q: Do you remember when - let me represent to you that a Reynolds database, Charlotte database, indicates that this document was prepared on November 8, 1984. Does that sound right to you?

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A: Sounds reasonable.
Q: Do you have any reason to doubt that date?
A: No, I don't have a database.
MR. WILLIAMS: Are you going to have questions about this?
MR. SHONKA: Let's go off the record.
(Deposition recessed at 5:09 p.m.)

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CERTIFICATION O F REPORTER

DOCKET/FILE NUMBER: D09285
CASE TITLE: R.J. REYNOLDS TOBACCO COMPANY
HEARING DATE: June 3, 1998

I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the notes taken by me at the hearing on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.
DATED: June 4th, 1998

ANDREA L. NOBREGA

CERTIFICATION O F PROOFREADER

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation, and format.

MARTIN A. NOBREGA



CERTIFICATE OF DEPONENT

I hereby certify that I have read and examined the foregoing transcript, and the same is a true and accurate record of the testimony given by me.

Any additions or corrections that I feel are necessary, I will attach on a separate sheet of paper to the original transcript.

I hereby certify that the individual representing himself/herself to be the above-named individual, appeared before me this

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**yesterday** 116:17; 120:3; 124:10; 127:7, 8; 129:3; 135:4, 9, 11; 138:10; 141:3; 142:2, 21; 143:1, 9, 14, 20; 147:21; 159:6; 168:9; 181:19, 22; 190:7, 17
**yesterday's** 117:4, 20
**yielded** 174:2; 177:11
**younger** 126:22; 128:19; 145:7, 23; 146:16; 150:24; 151:17; 152:22; 153:10; 155:25; 156:17; 158:17, 22; 159:15; 165:17; 165:13; 166:3, 17, 20, 25; 167:13; 170:21; 173:2, 20; 173:18; 174:7, 9; 176:13, 22; 177:14, 20; 179:15; 180:6; 181:4; 187:24; 188:4; 189:25; 190:1; 191:6, 9; 193:22; 198:12; 199:13, 18, 21, 25; 203:4, 20; 204:3, 6, 14, 17; 207:1, 7; 209:13; 210:20
**yours** 153:19, 20
**youth** 149:25

**Z**

**Z** 142:2

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CONFIDENTIAL

October 6, 1982

PLAINTIFF'S EXHIBIT 11

TO: Mr. L. W. Hall, Jr.

FROM: Ms. D. S. Burrows

RE: BRAND PRICE ELASTICITIES BASED ON NBER STUDIES

I have developed estimated price elasticities for RJR/PM and selected brands from the age/sex elasticities of demand found by the National Bureau of Economic Research* and Tracker age/sex profiles for the first half of 1982.

These elasticities are not exact. They are presented to give a general idea of the brands which may be more or less price sensitive, according to the NBER's findings.

METHODOLOGY

The NBER found statistically significant effects of price on demand as follows:

| | ELASTICITY | |
|---|---|---|
| | MALES | TOTAL |
| Teens (12-17) | NA | -1.44 |
| Young Adult (20-24) | -1.40 | - .89 |
| Ages 35+ | - .66 | - .45 |
| Total 20+ | NA | - .42 |

Although no statistically significant elasticities were found among females, the total elasticities for the 20-24, 35+, and total 20+ groups cannot be fully explained by the effects on males. This implies some effect among females. The effect on females is partially confirmed by noting the dips in Tracker's female incidence figures following price increases.

Therefore, I have developed brand price elasticities under two scenarios:

1. ONLY MALES under 25 or over 35 are assumed to be affected by price. This, in effect, says that the NBER's age/sex results are more meaningful than those for total age groups. This scenario depicts an overall adult elasticity of about - .33 (almost identical to RJR's industry model).

2. MALES AND FEMALES under 25 or over 35 are assumed to be affected by price. Elasticities for males are those found by NBER. Female elasticities were derived so that the combined male/female effect would equal the NBER prediction for each total age group. This scenario equates to an overall adult price elasticity of about -.41, close to the NBER's original figure.

*These studies were discussed in my memos of 9/21 ("Estimated Change in Industry Trend Following F.E.T. Increase") and 10/6 ("NBER Models of Price Sensitivity").

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FINDINGS

Brand/company elasticities and indices of their price sensitivity are shown on the attached chart. Brands showed the same rank order of price sensitivity under both scenarios. However, brand elasticities were more nearly equal if both females and males were assumed to react to price.

CONCLUSIONS

The rise in cigarette prices associated with the 1983 F.E.T. increase may affect brand market shares. The degree of these effects will depend greatly on the extent to which women react to price (an issue not resolved by the NBER models) and on other factors in the marketplace.

All other factors being equal, the relative effects are estimated as follows:

- Neither RJR nor PM would gain share advantage from the price hike.
- Share trends for WINSTON and Marlboro may show negative price effects. The degree of effect is likely to be similar for these brands.
- Strongly female brands, such as Virginia Slims, are relatively invulnerable to price and may improve their market share due to higher prices.
- SALEM's share may benefit slightly from higher prices. Newport is more likely to be adversely affected.
- VANTAGE and Kent elasticities are about equal. Their share trends may modestly improve due to higher prices.
- The B&W profile suggests a positive share effect from increased price.
- CAMEL is the most price sensitive among the brands examined. This may explain some of the brand's 1982 slowdown. Further slowing may occur as prices rise.

D. S. Burrows
MARKETING DEVELOPMENT DEPARTMENT

DSB/ch

cc: Mr. J. R. Moore
Mr. H. E. Osmon
Ms. E. N. Monahan
Mr. E. J. Fackelman
Mr. J. R. Hribar
MDIC
Mr. P. E. Galyan
Mr. R. A. Davis
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## ESTIMATED BRAND/COMPANY PRICE ELASTICITIES

Sources: NBER Elasticities; Tracker brand profiles and age/sex rates per day

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| | % CONSUMPTION ATTRIBUTABLE TO: | | | | | | EST. ELASTICITY (2 SCENARIOS) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | MALES | | | FEMALES | | | "ONLY MALES" | | "MALES/FEMALES" | |
| | 18-24 | 25-34 | 35+ | 18-24 | 25-34 | 35+ | EST. | INDEX | EST. | INDEX |
| WINSTON | 4.8% | 13.1% | 56.0% | 2.0% | 6.9% | 17.2% | - .436 | 131 | - .486 | 121 |
| CAMEL | 9.9 | 17.2 | 58.5 | 2.6 | 2.3 | 9.5 | - .524 | 157 | - .548 | 137 |
| SALEM | 5.0 | 11.4 | 32.5 | 7.4 | 13.2 | 30.5 | - .284 | 85 | - .360 | 90 |
| VANTAGE | 5.9 | 13.4 | 33.2 | 4.9 | 11.0 | 29.6 | - .301 | 90 | - .368 | 92 |
| RJR (TOTAL) | 5.8 | 13.9 | 40.5 | 4.4 | 9.8 | 25.6 | - .348 | 104 | - .406 | 101 |
| Marlboro | 20.3 | 25.3 | 23.0 | 12.4 | 9.5 | 9.5 | - .436 | 131 | - .491 | 122 |
| Va. Slims | .2 | .8 | 3.3 | 30.3 | 26.7 | 38.7 | - .025 | 7 | - .186 | 46 |
| Merit | 8.3 | 16.0 | 29.2 | 8.3 | 14.7 | 23.5 | - .308 | 92 | - .375 | 94 |
| B&H | 4.9 | 9.1 | 25.9 | 8.8 | 15.8 | 35.5 | - .239 | 72 | - .328 | 82 |
| PM (TOTAL) | 13.2 | 17.9 | 23.5 | 12.1 | 12.8 | 20.5 | - .340 | 102 | - .413 | 103 |
| Newport | 22.0 | 19.3 | 7.1 | 27.9 | 13.3 | 10.4 | - .355 | 106 | - .460 | 115 |
| TOTAL INDUSTRY | 7.7 | 14.5 | 34.4 | 6.8 | 10.7 | 25.9 | - .334 | 100 | - .401 | 100 |
| Elasticity | -1.401 | None | - .658 | - .311 E | None | - .174 E | | | | |

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CONFIDENTIAL

October 6, 1982

PLAINTIFF'S EXHIBIT 12

TO: Mr. L. W. Hall, Jr.

FROM: Ms. D. S. Burrows

RE: NBER MODELS OF PRICE SENSITIVITY BY AGE/SEX

## BACKGROUND

In 1981, the National Bureau of Economic Research (NBER) published two models based on consumers' responses to government smoking surveys. Because the NBER models were cross-sectional (testing difference between peopl rather than over time) they were able to relate price separately to incidence and rate per day, by age and sex.

The NBER elasticities may not reflect the exact effects of price increases, since their models didn't deal with changes over time. However, the effects they found for other variables (race, income, working women, etc.) are highly consistent with our understanding of market dynamics. Thus, it is likely that the NBER models have correctly identified relative price sensitivity among age/sex groups.

A detailed critique of the NBER models is Attachment B.

## SUMMARY OF FINDINGS

According to the NBER models:

- Teenagers and younger adult males are highly price sensitive.
- Males over 35 have above average price sensitivity.
- Women and 26-34 year old men are relatively immune to price.
- Price affects incidence; rate per day is virtually unchanged.

| | NBER PRICE ELASTICITY AMONG: | | | | | |
|---|---|---|---|---|---|---|
| | TEENS 12-17 | AGES 20-25 TOTAL | AGES 20-25 MALES | AGES 35+ TOTAL | AGES 35+ MALES | TOTAL 20+ |
| EFFECT ON: | | | | | | |
| Incidence | -1.19 | - .74 | -1.28 | NA | NA | - .26 |
| Consumption | -1.44 | - .89 | -1.40 | - .45 | - .66 | - .42 |

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CONCLUSIONS

In terms of immediate impact, the effect of price on males 35+ is most important. Half (50%) of the total drop in industry volume is attributable to males 35+, compared to 24% from younger adult males, and 7% from teenagers. (Calculated in Attachment A)

But, the loss of younger adult males and teenagers is more important to the long term, drying up the supply of new smokers to replace the old.* This is not a fixed loss to the industry: its importance increases with time. In ten years, increased rate per day would have been expected to raise this group's consumption by more than 50%.

Diane S. Burrows
MARKETING DEVELOPMENT DEPARTMENT

DSB/ch

cc: Mr. J. R. Moore
Mr. H. E. Osmon
Ms. E. N. Monahan
Mr. E. J. Fackelman
Mr. J. R. Hribar
Mr. P. E. Galyan
Mr. W. W. Doten
Mr. R. A. Davis
MDIC

*As discussed in my 9/21/82 memo re "Estimated Change in Industry Trend Following F.E.T. Increase".

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ATTACHMENT A

# IMPORTANCE OF PRICE IMPACT BY AGE/SEX TO TOTAL INDUSTRY

## I. 1982 IMPORTANCE TO INDUSTRY

| | % OF SMOKERS | RATE PER DAY | IMPORTANCE = % OF TOTAL CONSUMPTION |
|---|---|---|---|
| Teenagers 12-17 | 4.0 E | 17.4 E | 2.2 E |
| Males 18-24 | 8.0 | 29.7 | 7.5 |
| Males 35+ | 28.7 | 36.9 | 33.6 |
| Total 18+ | 96.0 | 31.7 | 97.8 |
| TOTAL | 100.0 | 31.1 E | 100.0 |

Source: Tracker (% smokers first half 1982, rate in year 1981) adjusted for estimated teenage smoking.

II. IMPORTANCE TO PRICE IMPACT: Sample calculation assumes 10% price increase and flat 623.0 billion industry. Importance of group to total change is independent of total volume or price change.

| | IMPORTANCE TO INDUSTRY | | NBER ELAS- | LOSS FOLLOWING 10% PRICE INCREASE | |
|---|---|---|---|---|---|
| | % | BILLIONS | TICITY | BILLIONS | IMPORTANCE (%) |
| Teenagers 12-17 | 2.2% | 13.7 | -1.44 | 2.0 | 7.2% |
| Males 18-24 | 7.5 | 46.7 | -1.40 | 6.5 | 23.6 |
| Males 35+ | 33.6 | 209.3 | - .66 | 13.8 | 50.0 |
| Total 18+ | 97.8 | 609.3 | - .42 | 25.6 | 92.8 |
| TOTAL | 100.0 | 623.0 | - .44 E | 27.6 | 100.0 |

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ATTACHMENT 3

TECHNICAL SUPPLEMENT

SUMMARY AND CRITIQUE OF THE NBER MODELS

Lewit and Coate of the National Bureau of Economic Research developed two series of models relating cigarette prices (and other factors) to reported incidence, rate per day, and "total demand" (incidence times rate).

Although reported rates understate true consumption, the models would still be valid if the under-reporting was constant across the other variables -- geography, age, sex, etc. We ordinarily use this assumption ourselves.

Both studies were weakened by assuming that prices in all locales/outlets in a state were similar to the statewide average reported by TMA, plus local tax. This may be why both models had low adjusted R-squared values (.11 or less, but still significant).

Other aspects of the NBER studies are critiqued separately below, since each used a different data source, time period, and methodology.

THE OVER-20 MODELS

SOURCE: "The Potential for Using Excise Taxes to Reduce Smoking," Working Paper No. 766 of the National Bureau of Economic Research, by E. M. Lewit and and D. Coate, September, 1981.

This ordinary least squares model used data tapes of individual responses to the Health Interview Survey of 1976. It expressed incidence, rate, and "total demand" of respondents over age 20 as a linear function of:

- Retail price, defined as the TMA - reported average in the respondent's state, adjusted for any local taxes.
- Family income and size
- Sex
- Marital Status
- Health status (perceived)
- Region and city size
- Race
- Working woman or not

Using the full sample, price was not found to be a statistically significant factor in incidence, rate, or "total demand". Coefficients for most of the other variables were significant (at the 5% level) in a direction consistent with our consumer research findings.

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The models were respecified using a restricted sample which eliminated respondents within 20 miles of a lower priced state, on the premise that the price they actually paid might be lower than the assigned price ("border effect"). For the restricted sample, price was found to be a statistically significant factor in:

- Incidence and "total demand" among 20-25 year olds.
- "Total demand" among those over 35.

When the regressions were done by age/sex, significant coefficients were found only for males. Though none were found in the female regressions, the higher elasticity for males/females combined than for males alone may imply some effect among females.

Selected elasticities are tabulated on the next page. Only boxed values have statistical significance at normal levels.

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NBER ELASTICITIES AMONG PERSONS 20+ (1976)
(Sample Restricted to Eliminate Border Effect)

| | REPORTED INCIDENCE | REPORTED RATE | "TOTAL DEMAND" (INC. x RATE) |
|---|---|---|---|
| **RETAIL PRICE** | | | |
| Total 20+ | - .264* | - .037 | - .416** |
| 20-25 | - .74* | - .20 | - .89* |
| 26-35 | - .44 | - .04 | - .47 |
| 35+ | - .15 | - .15 | - .45* |
| Males 20+ | | | |
| 20-25 | -1.296** | - .171 | -1.401* |
| 26-35 | - .292 | + .029 | - .320 |
| 35+ | - .246 | - .204 | - .658* |
| Females 20+ | | | |
| 20-25 | - .136 | - .026 | - .302 |
| 26-35 | - .388 | - .134 | - .577 |
| 35+ | - .068 | - .077 | - .118 |
| **INCOME** | | | |
| Total 20+ | + .03 | + .06** | - .08** |

*OLS coefficient statistically significant at 5% level (2-tailed test).

**OLS coefficient statistically significant at 1% level (2-tailed test).

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Since the NBER models are based on geographic differences in retail price at one point in time (1976), they do not translate directly to national changes over time:

- The positive income elasticity suggests that, over time, price elasticity should be applied to retail price deflated by some measure of consumer income. However, the price elasticities are strongly age/sex specific and income measures/projections are not available by age/sex.
- Since consumer prices may continue to rise faster than income (especially among young adults), using the CPI as a deflator probably yields conservative estimates of the price impact.
- Restricting the sample to eliminate "border effects" improved the model's applicability to the nation. However, it created some regional bias -- Westerners rose from 18% to 29% of the sample while Northeasterners fell from 24% to 11%. This may have made the price elasticity more negative than the "true" national value, since positive coefficients were associated with residence in any region except the West.

Thus, the adult NBER elasticities are imprecise for national price changes. However, they probably give a reasonable idea of the groups most affected by price and the orders of magnitude of the effects.

THE TEENAGE MODEL

SOURCE: "The Effects of Government Regulation on Teenage Smoking," by E. M. Lewit, D. Coate, and M. Grossman. Journal of Law and Economics, December, 1981.

These models used personal interview data from Cycle III of the Health Examination Survey*, conducted 1966-70. Incidence and rate findings from HES III seem reasonable, perhaps even a cut above most teenage studies. But it is not recent.

A major goal of this study was pre/post assessment of the Fairness Doctrine, which loaded television with anti-smoking commercials from 7/67 through 12/70. Other variables included:

*In Self-Reported Health Behavior and Attitudes of Youths 12-17 Years, United States. HEW, 1975.



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- TMA retail prices, adjusted to state cost-of-living and changes in the national CPI during the 4-year survey (an improvement over no adjustment, but still makeshift).
- Fairness Doctrine intensity versus cigarette advertising and amount of time spent watching TV
- Family income deflated by state cost-of-living
- Number of other children
- Parents' education
- Working mother or single parent
- Employment/allowance of youth respondent (detailed)
- Student status
- Age
- Sex
- Race
- Region and city size

Large, negative price elasticities were found. The coefficients were stable and statistically significant in all model specifications reported. The authors suggest that these large elasticities may incorporate other effects which the model did not include/capture separately. They suggest that the income related variables may have failed to represent the youth's actual discretionary income.

NBER PRICE ELASTICITIES AMONG YOUTH 12-17

| | REPORTED INCIDENCE | REPORTED RATE | "TOTAL DEMAND" (INC. x RATE) |
|---|---|---|---|
| Total 12-17 | - 1.19 | - .25 | - 1.44 |

The Fairness Doctrine was also found to have an important negative effect during its first year (accounting for a 3 percentage point drop in 12-17 incidence), but showed diminishing returns during its second and third year. Cigarette advertising on TV was found to partially offset the Doctrine effects. Thus, the absence of TV advertising after 1970 was implicitly a negative effect, but the absence of the Fairness was a larger implicit positive.

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Results for other variables were not reported.

Weaknesses in the teenage NBER model are:

- Loose estimation of price, loosely deflated.
- "Impure" price elasticity (probably somewhat inflated).
- Data from the late 1960's, which may not reflect today's market.

National application of this model has the same problems as in the adult model, except that the problem of estimating what teenagers perceive as "real" price change is even worse.

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Jerry Moo

October 13, 1982

TO: Mr. J. W. Johnston
Mr. M. L. Orlowsky

FROM: L. W. Hall, Jr.

SUBJECT: PRICE ELASTICITIES

Attached are three documents relating to price elasticities for your review.

I have asked Jerry Moore to arrange a meeting for the four of us to discuss the implications of this information sometime next week.

Larry

L. W. Hall, Jr.

LWH:is

Attachment

cc: Mr. J. R. Moore

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CONFIDENTIAL

October 6, 1982

TO: Mr. L. W. Hall, Jr.

FROM: Ms. D. S. Burrows

RE: NBER MODELS OF PRICE SENSITIVITY BY AGE/SEX

BACKGROUND

In 1981, the National Bureau of Economic Research (NBER) published two models based on consumers' responses to government smoking surveys. Because the NBER models were cross-sectional (testing differences between people rather than over time) they were able to relate price separately to incidence and rate per day, by age and sex.

The NBER elasticities may not reflect the exact effects of price increases, since their models didn't deal with changes over time. However, the effects they found for other variables (race, income, working women, etc.) are highly consistent with our understanding of market dynamics. Thus, it is likely that the NBER models have correctly identified relative price sensitivity among age/sex groups.

A detailed critique of the NBER models is Attachment B.

SUMMARY OF FINDINGS

According to the NBER models:

- Teenagers and younger adult males are highly price sensitive.
- Males over 35 have above average price sensitivity.
- Women and 26-34 year old men are relatively immune to price.
- Price affects incidence; rate per day is virtually unchanged.

| | NBER PRICE ELASTICITY AMONG: | | | | | |
|---|---|---|---|---|---|---|
| | TEENS 12-17 | AGES 20-25 TOTAL | AGES 20-25 MALES | AGES 35+ TOTAL | AGES 35+ MALES | TOTAL 20+ |
| EFFECT ON: | | | | | | |
| Incidence | -1.19 | - .74 | -1.28 | NA | NA | - .26 |
| Consumption | -1.44 | - .89 | -1.40 | - .45 | - .66 | - .42 |

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CONCLUSIONS

In terms of immediate impact, the effect of price on males 35+ is most important. Half (50%) of the total drop in industry volume is attributable to males 35+, compared to 24% from younger adult males, and 7% from teenagers. (Calculated in Attachment A)

But, the loss of younger adult males and teenagers is more important to the long term, drying up the supply of new smokers to replace the old.* This is not a fixed loss to the industry: its importance increases with time. In ten years, increased rate per day would have been expected to raise this group's consumption by more than 50%.

Diane S. Burrows
MARKETING DEVELOPMENT DEPARTMENT

DSB/cn

cc: Mr. J. R. Moore
Mr. H. E. Osmon
Ms. E. N. Monahan
Mr. E. J. Packelman
Mr. J. R. Hriber
Mr. M. E. Galyan
Mr. W. W. Doten
Mr. R. A. Davis
MDIC

*As discussed in my 9/21/82 memo re "Estimated Change in Industry Trend Following F.E.T. Increase".

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ATTACHMENT A

IMPORTANCE OF PRICE IMPACT BY AGE/SEX TO TOTAL INDUSTRY

I. 1982 IMPORTANCE TO INDUSTRY

| | % OF SMOKERS | RATE PER DAY | IMPORTANCE = % OF TOTAL CONSUMPTION |
|---|---|---|---|
| Teenagers 12-17 | 4.0 E | 17.4 E | 2.2 E |
| Males 18-24 | 8.0 | 29.7 | 7.5 |
| Males 35+ | 28.7 | 36.9 | 33.6 |
| Total 18+ | 96.0 | 31.7 | 97.8 |
| TOTAL | 100.0 | 31.1 E | 100.0 |

Source: Tracker (% smokers first half 1982, rate in year 1981) adjusted for estimated teenage smoking.

II. IMPORTANCE TO PRICE IMPACT: Sample calculation assumes 10% price increase and flat 623.0 billion industry. Importance of group to total change is independent of total volume or price change.

| | IMPORTANCE TO INDUSTRY % | IMPORTANCE TO INDUSTRY BILLIONS | NBER ELASTICITY | LOSS FOLLOWING 10% PRICE INCREASE BILLIONS | LOSS FOLLOWING 10% PRICE INCREASE IMPORTANCE (%) |
|---|---|---|---|---|---|
| Teenagers 12-17 | 2.2% | 13.7 | -1.44 | 2.0 | 7.2% |
| Males 18-24 | 7.5 | 46.7 | -1.40 | 6.5 | 23.6 |
| Males 35+ | 33.6 | 209.3 | - .66 | 13.8 | 50.0 |
| Total 18+ | 97.8 | 609.3 | - .42 | 25.6 | 92.8 |
| TOTAL | 100.0 | 623.0 | - .44 E | 27.6 | 100.0 |

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Produced to Federal Trade Commission pursuant to subpoena dated June 6, 1997.
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## ATTACHMENT B

## TECHNICAL SUPPLEMENT

## SUMMARY AND CRITIQUE OF THE NBER MODELS

Levit and Coate of the National Bureau of Economic Research developed two series of models relating cigarette prices (and other factors) to reported incidence, rate per day, and "total demand" (incidence times rate).

Although reported rates understate true consumption, the models would still be valid if the under-reporting was constant across the other variables -- geography, age, sex, etc. We ordinarily use this assumption ourselves.

Both studies were weakened by assuming that prices in all locales/outlets in a state were similar to the statewide average reported by TMA, plus local tax. This may be why both models had low adjusted R-squared values (.11 or less, but still significant).

Other aspects of the NBER studies are critiqued separately below, since each used a different data source, time period, and methodology.

### THE OVER-20 MODELS

SOURCE: "The Potential for Using Excise Taxes to Reduce Smoking," Working Paper No. 764 of the National Bureau of Economic Research, by E. M. Lewit and and D. Coate, September, 1981.

This ordinary least squares model used data tapes of individual responses to the Health Interview Survey of 1976. It expressed incidence, rate, and "total demand" of respondents over age 20 as a linear function of:

- Retail price, defined as the TMA - reported average in the respondent's state, adjusted for any local taxes.
- Family income and size
- Sex
- Marital Status
- Health status (perceived)
- Region and city size
- Race
- Working woman or not

Using the full sample, price was not found to be a statistically significant factor in incidence, rate, or "total demand". Coefficients for most of the other variables were significant (at the 5% level) in a direction consistent with our consumer research findings.

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The models were respecified using a restricted sample which eliminated respondents within 20 miles of a lower priced state, on the premise that the price they actually paid might be lower than the assigned price ("border effect"). For the restricted sample, price was found to be a statistically significant factor in:

- Incidence and "total demand" among 20-25 year olds.
- "Total demand" among those over 35.

When the regressions were done by age/sex, significant coefficients were found only for males. Though none were found in the female regressions, the higher elasticity for males/females combined than for males alone may imply some effect among females.

Selected elasticities are tabulated on the next page. Only boxed values have statistical significance at normal levels.

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## NBER ELASTICITIES AMONG PERSONS 20+ (1976)
(Sample Restricted to Eliminate Border Effect)

| | REPORTED INCIDENCE | REPORTED RATE | "TOTAL DEMAND" (INC. x RATE) |
|---|---|---|---|
| **RETAIL PRICE** | | | |
| Total 20+ | - .264* | - .037 | - .416** |
| 20-25 | - .74* | - .20 | - .89* |
| 26-35 | - .44 | - .04 | - .47 |
| 35+ | - .15 | - .15 | - .45* |
| Males 20+ | | | |
| 20-25 | -1.276** | - .171 | -1.401* |
| 26-35 | .292 | + .029 | - .320 |
| 35+ | - .246 | - .204 | - .658* |
| Females 20+ | | | |
| 20-25 | - .136 | - .026 | - .302 |
| 26-35 | - .388 | - .134 | - .577 |
| 35+ | + .066 | - .077 | - .118 |
| **INCOME** | | | |
| Total 20+ | + .03 | + .06** | - .08** |

*OLS coefficient statistically significant at 5% level (2-tailed test).

**OLS coefficient statistically significant at 1% level (2-tailed test).

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Since the NBER models are based on geographic differences in retail price at one point in time (1976), they do not translate directly to national changes over time:

- The positive income elasticity suggests that, over time, price elasticity should be applied to retail price deflated by some measure of consumer income. However, the price elasticities are strongly age/sex specific and income measures/projections are not available by age/sex.

- Since consumer prices may continue to rise faster than income (especially among young adults), using the CPI as a deflator probably yields conservative estimates of the price impact.

- Restricting the sample to eliminate "border effects" improved the model's applicability to the nation. However, it created some regional bias -- Westerners rose from 18% to 29% of the sample while Northeasterners fell from 24% to 11%. This may have made the price elasticity more negative than the "true" national value, since positive coefficients were associated with residence in any region except the West.

Thus, the adult NBER elasticities are imprecise for national price changes. However, they probably give a reasonable idea of the groups most affected by price and the orders of magnitude of the effects.

THE TEENAGE MODEL

SOURCE: "The Effects of Government Regulation on Teenage Smoking," by E. M. Lewit, D. Coate, and M. Grossman. Journal of Law and Economics, December, 1981.

These models used personal interview data from Cycle III of the Health Examination Survey*, conducted 1966-70. Incidence and rate findings from HES III seem reasonable, perhaps even a cut above most teenage studies. But it is not recent.

A major goal of this study was pre/post assessment of the Fairness Doctrine, which loaded television with anti-smoking commercials from 7/67 through 12/70. Other variables included:

*In Self-Reported Health Behavior and Attitudes of Youths 12-17 Years, United States. HEW, 1975.

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- TMA retail prices, adjusted to state cost-of-living and changes in the national CPI during the 4-year survey (an improvement over no adjustment, but still makeshift).
- Fairness Doctrine intensity versus cigarette advertising and amount of time spent watching TV
- Family income deflated by state cost-of-living
- Number of other children
- Parents' education
- Working mother or single parent
- Employment/allowance of youth respondent (detailed)
- Student status
- Age
- Sex
- Race
- Region and city size

Large, negative price elasticities were found. The coefficients were stable and statistically significant in all model specifications reported. The authors suggest that these large elasticities may incorporate other effects which the model did not include/capture separately. They suggest that the income related variables may have failed to represent the youth's actual discretionary income.

BEER PRICE ELASTICITIES AMONG YOUTH 12-17

| | REPORTED INCIDENCE | REPORTED RATE | "TOTAL DEMAND" (INC. x RATE) |
|---|---|---|---|
| Total 12-17 | - 1.19 | - .25 | - 1.44 |

The Fairness Doctrine was also found to have an important negative effect during its first year (accounting for a 3 percentage point drop in 12-17 incidence), but showed diminishing returns during its second and third year. Cigarette advertising on TV was found to partially offset the Doctrine effects. Thus, the absence of TV advertising after 1970 was implicitly a negative effect, but the absence of the Fairness was a larger implicit positive.

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Results for other variables were not reported.

Weaknesses in the teenage NBER model are:

- Loose estimation of price, loosely deflated.
- "Impure" price elasticity (probably somewhat inflated).
- Data from the late 1960's, which may not reflect today's market.

National application of this model has the same problems as in the adult model, except that the problem of estimating what teenagers perceive as "real" price change is even worse.

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TO: Mr. L. W. Hall, Jr.

FROM: Ms. D. S. Burrows

RE: MARKETING IMPLICATIONS OF THE NBER STUDY ON PRICE SENSITIVITY AMONG ADULTS 21+

A study published by the National Bureau of Economic Research indicates that younger adult male smokers (18-24 years old) are highly sensitive to cigarette prices.* They concluded that an increase in the federal excise tax on cigarettes was likely to reduce the number of younger adult smokers (through quitting or not starting) and therefore have a long range negative effect on industry sales. This government conclusion must be considered in assessing the future of the industry but is not relevant to marketing, since RJR does not seek to influence individuals' decisions to smoke or not.

However, the NBER study does suggest that two changes may occur within the adult cigarette [illegible] as a result of the 1991 F.E.T. increase:

- [illegible] a large market share among younger adult smokers could [illegible] with potential. These brands include [illegible].
- Young [illegible] to continue smoking may seek lower [illegible]. Alternatives offer the only alter[illegible].

RJR has an opportunity to [illegible] effectively appeal younger adult male smokers by marketing [illegible] which offers a price advantage. At least three approaches are [illegible]:

1. A new [illegible] with [illegible] offers imagery combined with lower [illegible].
2. A larger, [illegible] pack of a new or existing younger adult male brand.
3. "Half-packs" (10's or [illegible] of a new or existing younger adult male brand, as an alternative to the brand's 20's.

*Published in "The Potential for Using Excise Taxes to Reduce Smoking", by E. M. Lewit and D. Coate. Working Paper No. [illegible] of the National Bureau of Economic Research. September 1981.

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- [redacted]
- Younger adult smokers are more sensitive to cash outlay per purchase than to cost per cigarette. (Otherwise they would not buy cartons, not packs.) "Half-packs" could reduce cash outlay by 30%-50% versus branded 20's. Generic 20's only offer about a 10%-25% differential to deLay.
- Low price would not imply a "cheap brand."
- No sacrifices to quality, unit profit, or marketing support would be required. Machine modifications to produce 12's are already being considered for other projects.
- [redacted]
- [redacted]

"Half-packs" [redacted] than 10% of all [redacted] only about 1% [redacted] loyalty of [redacted]

Among [redacted] best [redacted] array of [redacted]

"Half-packs" [redacted] franchise (such as [redacted] and Tracker [redacted] smoker group.

D. S. Purnell
MARKETING [redacted]

LSB:clu

cc: Mr. J. K. Moore
Mr. H. S. Owen
Ms. E. N. Monahan
Mr. E. J. Fazekehas
Mr. P. C. Galvan
Mr. P. A. Davis
Mr. W. A. Dreon
Mr. R. L. Riggins

*Per [redacted] Vol. 89, 1994 Final Publication Manual for APA Style

Code: 5.7.4

BEST IMAGE

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October 7, 1982

TO: Mr. Steve Perry
RJR Tobacco International

FROM: Ms. Diane S. Burrows

RE: PRICE ELASTICITY ESTIMATES

Here are three items which may assist RJR Canada in their price elasticity research.

1. A summary of RJR's model of the domestic cigarette industry, which yields an estimated price elasticity of -.32 for cigarette consumption.

2. A special issue of the TMA Issues Monitor which reviews a number of price elasticity studies previously published.

3. A summary of the models reported by the National Bureau of Economic Research (NBER) in 1981 and their implications. These have sparked interest because they are the first studies which have attempted to analyze which age/sex groups are most price sensitive.

   We have used the NBER results to estimate relative price elasticities for brands, by applying the age/sex elasticities to each brand's smoker profile. The "gaps" between the NBER's elasticities for males and for the total market imply that there are non-zero elasticities for females, but the NBER did not report them. Our estimates of the female elasticities which would account for these "gaps" are: -.31 for females 18-24, -.17 for females 35+

I believe Bob Davis already gave you the report which estimated about a -.4 elasticity for Oregon during its major state tax increase of December, 1981.

Diane S. Burrows
MARKETING DEVELOPMENT DEPARTMENT

DSB/ch

Code: 5.35

cc: Mr. J. R. Moore (Memo and Item 1 only)
Mr. J. R. Hribar "
Mr. P. E. Galyan "
Mr. R. A. Davis "

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PLAINTIFF'S EXHIBIT 15

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November 16, 1983

PLAINTIFF'S EXHIBIT 116

TO: L. P. Mabee
S. Y. Evans
S. W. Teague

FROM: D. S. Burrows

SUBJECT: PROCEDURE FOR ANALYZING/PROJECTING EFFECT OF AGING ON SMOKERS SHARE

In our last Younger Adult Task Force meeting, you asked me to forward a suggested procedure for analyzing the importance of aging versus other effects on brands' historical shares of smokers, and projecting possible aging effects in the future. Here it is.

- ATTACHMENT A is a sample worksheet on Newport which illustrates the heart of my approach. The basic idea is that, in any given year, an age group of smokers will consist of smokers who have aged into that group since the previous year and other smokers who have remained in the same age group. For example, in 1980, the chart shows that 11.0% of 25-34 year old smokers are "incoming" smokers age 25 -- in 1979 they were in the 18-24 group -- while the other 89.0% of the group remained 25-34. Similarly, 35 year olds moved on to the 35-49 group and 50 year olds were new to 50+. (The method of determining the percents incoming/remaining is detailed under Attachment B below.)

To estimate the share change, if any, to be expected due to aging alone, I have assumed that all incoming smokers bring the brand SOS of their previous group with them. For example, Newport's SOS among 25 year olds is assumed to be 5.2% in 1980, the SOS Newport had among 18-24 year olds the previous year. "Remaining" smokers are also assumed to keep the brands they had the previous year, e.g., Newport's 1.7% of SOS of 25-34 year olds in 1979 is assumed to carry over among the "remaining" 26-34 year olds in 1980. Thus we can say that, if only aging affected the market, Newport's share among 25-34 year olds in 1980 would project to be the weighted average of its shares among the "incoming" and "remaining".

| | | | | |
|---|---|---|---|---|
| 11.0% | x | 5.2 | = | .6 pts. due to "incoming" |
| 89.0% | x | 1.7 | = | 1.5 pts. due to "remaining" |
| | | | | 2.1% SOS among 25-34 |

This logic can be applied to all age groups except 18-24, where we have no data on "incoming" smokers shares and must rely on the current actuals or draw a scenario for the future.

After the age group shares expected from aging are estimated, they are combined at the bottom of the chart into a total projected SOS by weighting age groups according to their importance among total smokers. (Development of these weights is detailed under Attachment D.) Where our projections

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differ from the Tracker actuals, we can deduce that "other effects" were operating.

The historical analysis (left half of chart) and future projections (right half) are handled the same except that, in history, we "age in" the actual Tracker SOS while, for the future, we age the projected SOS for the previous year. This, in essence, says that where "other effects" have occurred we expect them to be permanent and also (on Attachment B) provides a means of deriving an annual average of "other effects."

Two future scenerios are projected. The first assumes that the brand's younger adult SOS remains fixed at its First Half 1983 level for the next five years. (This is a "down side" for Newport, but may be the "up side" for other brands.) The second projection assumes that the brand's SOS among younger adults will follow the same "trend" seen from 1979-83. For Newport, that trend was roughly projected by assuming every year-to-year YA SOS gain would equal the average 1979-83 gain at .8 per year (treating First Half 1983 as a year, which should tend to moderate any steep trends).

- ATTACHMENT B summarizes the results on Attachment A. In the historical section, "Aging Effect" is the difference between the projected SOS for a group and that group's actual SOS the previous year. "Other Effects" are then the difference between projected and actual SOS for each current year.

  The "projected" side is similar, using the "up side" and "down side" projections of aging effect and the 1980-83 average "other effects" to estimate future SOS.

- ATTACHMENT C estimates the percent importance of persons who have aged into each age range since the prior year shown, versus those who have remained in the range. These estimates are based on the latest available Census Bureau figures for the total population. By applying these percentages to smokers, we implicitly assume that incidence differences between incoming/remaining smokers are insignificant. Historical incidence suggests that the actual importance of incoming smokers would be somewhat less (but within 1 percentage point) of these estimates. Civilian population is used to be compatible with the Tracker sample.

- ATTACHMENT D calculates the historical/projected importance of each age range within the smoking population (18+), based on both population size and smoking incidence. Historical incidence is from M/A/R/C. Future incidence for the total population is taken from the MDD External Forecast (which was left unofficial in 1983 due to uncertainities surrounding the effects of the FET increase on incidence). Incidences among 18-24, 25-34, and 35-49 have been projected based on an earlier, unpublished analysis I did on cohort incidence trends. The 1983 incidence projections were adjusted based on the NBER price elasticities for these ages, assuming price affected only incidence among males 18-24, affected incidence and rate equally among males/females 35-49, and had no effect on incidence for females 18-24 and males/females 25-34. Incidence for 50+ was then derived by pulling smokers under 50 out of the total (since the NBER did not treat 50+ separately and this generated a reasonable looking projection).

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- ATTACHMENT E is a worksheet similar to Attachment C but with no brand specific data. I thought this might be useful in working up other brands. (Danna can get this format to another secretary via word processing if other charts need to be typed.)

I'll be glad to field questions in our 11/18 meeting or before.

Diane S. Burrows
Marketing Development

DSB:df

cc: R. C. Nordine
MBIC

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ATTACHMENT A

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NEWPORT M

MODEL FOR PROJECTING EFFECT OF AGING ON SHARE OF SMOKERS

IF HOLDS 1983 YA SOS | IF YA SOS KEEPS 4-YR. TREND

| AGE GROUP | 1979 | 1980 | | 1981 | | 1982 | | 1983* | | 1984 | | 1985 | | 1988 | | 1984 | | 1985 | | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | % | | % | | % | | % | | % | | % | | % | | % | | % | | |
| | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP | SOS | IMP |
| 18-24 Actual SOS | 5.2 | | 6.1 | | 7.0 | | 7.6 | | 8.5 | | | | | | | | 8.5 +.8 | | | |
| Projected SOS | | | | | | | | | | | 8.5 | | 8.5 | | 8.5 | | 9.3 | | 10.1 | |
| 25-34 Actual SOS | 1.7 | | 1.8 | | 2.3 | | 2.7 | | 3.3 | | | | | | | | | | | |
| Projected SOS | | 100.0 | 2.1 | 100.0 | 2.3 | 100.0 | 3.0 | 100.0 | 3.2 | 100.0 | 3.9 | 100.0 | 4.4 | 100.0 | 5.7 | 100.0 | 3.9 | 100.0 | 4.5 | 100.0 |
| Incoming | | 11.0 | 5.2 | 10.7 | 6.1 | 10.9 | 7.0 | 10.7 | 7.6 | 10.6 | 8.5 | 10.6 | 8.5 | 30.6 | 8.5 | 10.6 | 8.5 | 10.6 | 9.5 | 30.6 |
| Remaining | | 89.0 | 1.7 | 89.3 | 1.8 | 89.1 | 2.5 | 89.3 | 2.7 | 89.4 | 3.3 | 89.4 | 3.9 | 69.4 | 4.4 | 89.4 | 3.3 | 89.4 | 3.9 | 69.4 |
| 35-49 Actual SOS | .8 | | .7 | | .8 | | .8 | | 1.0 | | | | | | | | | | | |
| Projected SOS | | 100.0 | .9 | 100.0 | .8 | 100.0 | 1.0 | 100.0 | 1.0 | 100.0 | 1.2 | 100.0 | 1.4 | 100.0 | 2.1 | 100.0 | 1.2 | 100.0 | 1.4 | 100.0 |
| Incoming | | 7.9 | 1.7 | 7.7 | 1.8 | 9.9 | 2.5 | 8.9 | 2.7 | 8.7 | 3.3 | 8.6 | 3.9 | 24.6 | 4.4 | 8.7 | 3.3 | 8.6 | 3.9 | 24.6 |
| Remaining | | 92.1 | .8 | 92.3 | .7 | 90.1 | .8 | 91.1 | .8 | 91.3 | 1.0 | 91.4 | 1.2 | 75.4 | 1.4 | 91.3 | 1.0 | 91.4 | 1.2 | 75.4 |
| 50+ Actual SOS | .4 | | .4 | | .4 | | .4 | | .2 | | | | | | | | | | | |
| Projected SOS | | 100.0 | .4 | 100.0 | .4 | 100.0 | .4 | 100.0 | .4 | 100.0 | .2 | 100.0 | .2 | 100.0 | .3 | 100.0 | .2 | 100.0 | .2 | 100.0 |
| Incoming | | 4.0 | .8 | 3.8 | .7 | 3.6 | .8 | 3.6 | .8 | 3.5 | 1.0 | 3.5 | 1.2 | 10.8 | 1.4 | 3.5 | 1.0 | 3.5 | 1.2 | 10.8 |
| Remaining | | 96.0 | .4 | 96.2 | .4 | 96.4 | .4 | 96.4 | .4 | 96.5 | .2 | 96.5 | .2 | 89.2 | .2 | 96.5 | .2 | 96.5 | .2 | 89.2 |
| TAL Actual SOS | 1.7 | | 1.9 | | 2.2 | | 2.3 | | 2.6 | | | | | | | | | | | |
| + Projected SOS | | 100.0 | 2.0 | 100.0 | 2.2 | 100.0 | 2.4 | 100.0 | 2.6 | 100.0 | 2.7 | 100.0 | 2.8 | 100.0 | 3.4 | 100.0 | 2.8 | 100.0 | 3.1 | 100.0 |
| 18-24 | | 17.9 | 6.1 | 17.5 | 7.0 | 16.5 | 7.6 | 15.1 | 8.5 | 14.8 | 8.5 | 14.5 | 8.5 | 13.6 | 8.5 | 14.8 | 9.3 | 14.5 | 10.1 | 13.6 |
| 25-34 | | 25.2 | 2.1 | 26.1 | 2.3 | 25.8 | 3.0 | 25.5 | 3.2 | 25.2 | 3.9 | 24.9 | 4.4 | 24.2 | 5.7 | 25.2 | 3.9 | 24.9 | 4.5 | 24.2 |
| 35-49 | | 27.4 | .9 | 27.0 | .8 | 28.0 | 1.0 | 29.6 | 1.0 | 30.5 | 1.2 | 31.5 | 1.4 | 35.0 | 2.1 | 30.5 | 1.2 | 31.5 | 1.4 | 35.0 |
| 50+ | | 29.5 | .4 | 29.4 | .4 | 29.7 | .4 | 29.8 | .4 | 29.5 | .2 | 29.1 | .2 | 27.2 | .3 | 29.5 | .2 | 29.1 | .2 | 27.2 |

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ATTACHMENT B

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EFFECTS OF AGING ON SHARE OF SMOKERS

NEWPORT M

| | | HISTORICAL | | | | | PROJECTED | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 1980 | 1981 | 1982 | 1st Half 1983 | 1980-83 Avg. Chg. | 1st Half 1983 | 1984 | 1985 | 1988 |
| 18-24 | SMOKER SHARE | 6.1 | 7.0 | 7.6 | 8.5 | - | | | | |
| | Change vs. Yr. Ago | +.9 | +.9 | +.6 | +.9 | +.8 | | | | |
| 25-34 | SMOKER SHARE | 1.8 | 2.5 | 2.7 | 3.3 | - | | | | |
| | Change vs. Yr. Ago | +.1 | +.7 | +.2 | +.6 | +.4 | | | | |
| | Aging Effect | +.4 | +.2 | +.7 | +.2 | +.4 | | | | |
| | Other Effects | -.3 | +.5 | -.5 | +.4 | NC | | | | |
| 35-49 | SMOKER SHARE | .7 | .8 | .8 | 1.0 | - | | | | |
| | Change vs. Yr. Ago | -.1 | +.1 | NC | +.2 | +.1 | | | | |
| | Aging Effect | +.1 | -.1 | +.2 | NC | +.1 | | | | |
| | Other Effects | -.2 | +.2 | -.2 | +.2 | NC | | | | |
| 50+ | SMOKER SHARE | .4 | .4 | .4 | .2 | - | | | | |
| | Change vs. Yr. Ago | NC | NC | NC | -.2 | NC | | | | |
| | Aging Effect | NC | NC | NC | NC | NC | | | | |
| | Other Effects | NC | NC | NC | NC | NC | | | | |
| TOTAL 18+ | SMOKER SHARE | 1.9 | 2.2 | 2.3 | 2.6 | - | | | | |
| | Change vs. Yr. Ago | +.2 | +.3 | +.1 | +.3 | +.2 | | | | |
| | Aging Effect | +.3 | +.2 | +.2 | +.1 | +.2 | | | | |
| | Other Effects | -.1 | +.1 | -.1 | +.2 | NC | | | | |

- If Newport were to hold its 1983 share of younger adults and continue to be affected only by aging, its smoker share five years from now would be 3.4%, a gain of .8 points over 1983.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 8.5 | 8.5 | 8.5 | 8.5 |
| 25-34 | 3.3 | 3.9 | 4.4 | 5.7 |
| 35-49 | 1.0 | 1.2 | 1.4 | 2.1 |
| 50+ | .2 | .2 | .2 | .3 |
| Total | 2.6 | 2.7 | 2.8 | 3.4 |
| Other Effects | - | NC | NC | NC |
| OVERALL | 2.6 | 2.7 | 2.8 | 3.4 |

- If Newport were to continue to gain among younger adults at the rate seen since 1980, its smokers share could reach 3.8% by 1988.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 8.5 | 9.3 | 10.1 | 10.9 |
| 25-34 | 3.3 | 3.9 | 4.5 | 6.2 |
| 35-49 | 1.0 | 1.2 | 1.4 | 2.2 |
| 50+ | .2 | .2 | .2 | .3 |
| Total | 2.6 | 2.8 | 3.1 | 3.8 |
| Other Effects | - | NC | NC | NC |
| OVERALL | 2.6 | 2.8 | 3.1 | 3.8 |

[illegible]

ver the last four years, Newport has gained an average of .2 share oints per year of total smokers.

ewport's long-term growth is entirely attributable to its large, teady gains among younger adults. Gains in older smokers groups ppear to be solely the result of aging.

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ATTACHMENT C

RESIDENT CIVILIAN U. S. POPULATION

Census Bureau Estimates/Projections (000)

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| | ESTIMATED | | | | PROJECTED ** | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 |
| Ages 18-24 | 28,957 | 29,250 | 29,325 | 29,246 | 28,933 | 28,355 | 27,593 | 25,830 |
| Ages 25-34 | 35,547 | 36,926 | 38,289 | 38,753 | 39,507 | 40,287 | 41,053 | 42,088 |
| Age 25* | 3,946 | 4,056 | 4,094 | 4,213 | 4,236 | 4,286 | 4,352 | 12,861 |
| % of 25-34 | 11.1 | 11.0 | 10.7 | 10.9 | 10.7 | 10.6 | 10.6 | 30.6 |
| Ages 35-49 | 36,079 | 36,624 | 37,199 | 38,871 | 40,292 | 41,792 | 43,318 | 48,224 |
| Age 35* | 2,899 | 2,883 | 2,847 | 3,837 | 3,600 | 3,629 | 3,707 | 11,851 |
| % of 35-49 | 8.0 | 7.9 | 7.7 | 9.9 | 8.9 | 8.7 | 8.6 | 24.6 |
| Ages 50+ | 58,299 | 59,149 | 59,735 | 60,240 | 60,767 | 61,217 | 61,690 | 63,254 |
| Age 50* | 2,251 | 2,337 | 2,269 | 2,158 | 2,175 | 2,133 | 2,181 | 6,815 |
| % of 50+ | 3.9 | 4.0 | 3.8 | 3.6 | 3.6 | 3.5 | 3.5 | 10.8 |
| TOTAL AGES 18+ | 158,881 | 161,949 | 164,549 | 167,110 | 169,348 | 171,647 | 173,652 | 179,397 |

Sources: P25 #922, #929

* Ages 25-27, 35-37, and 50-52 for 1988.

** Census projections adjusted assuming military/overseas population size/distribution remains as in 1982. 1988 interpolated from 1985 and 1990 Census Bureau figures. Fifty-year olds estimated by aging 49, 48, etc., from prior years with mortality ratios (50-52 in 1988 estimated as 61.0% of 50-54 group, based on 1982).

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## ESTIMATED CIVILIAN SMOKING POPULATION

| | | ESTIMATED * | | | PROJECTED ** | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1988 |
| 18-24 | Population (M) | 29,250 | 29,325 | 29,246 | 28,933 | 28,355 | 27,593 | 25,830 |
| | Incidence (%) | 32.7 | 31.7 | 29.4 | 26.2 | 26.4 | 26.5 | 26.7 |
| | Smokers (MM) | 9.6 | 9.3 | 8.6 | 7.6 | 7.5 | 7.3 | 6.9 |
| | % Smokers 18+ | 17.9 | 17.5 | 16.5 | 15.1 | 14.8 | 14.5 | 13.6 |
| 25-34 | Population (M) | 36,926 | 38,289 | 38,753 | 39,504 | 40,258 | 41,053 | 42,088 |
| | Incidence (%) | 36.6 | 36.4 | 34.6 | 32.3 | 31.6 | 30.7 | 29.2 |
| | Smokers (MM) | 13.5 | 13.9 | 13.4 | 12.8 | 12.7 | 12.6 | 12.3 |
| | % Smokers 18+ | 25.2 | 26.1 | 25.8 | 25.5 | 25.2 | 24.9 | 24.2 |
| 35-49 | Population (M) | 36,624 | 37,199 | 38,871 | 40,292 | 41,792 | 43,318 | 48,224 |
| | Incidence (%) | 40.0 | 38.7 | 37.4 | 36.9 | 36.8 | 36.8 | 36.8 |
| | Smokers (MM) | 14.7 | 14.4 | 14.5 | 14.9 | 15.4 | 15.9 | 17.7 |
| | % Smokers 18+ | 27.4 | 27.0 | 28.0 | 29.6 | 30.5 | 31.5 | 35.3 |
| 50+ | Population (M) | 59,149 | 59,735 | 60,240 | 60,767 | 61,217 | 61,690 | 63,254 |
| | Incidence (%) | 26.7 | 26.2 | 25.6 | 24.7 | 24.3 | 23.8 | 21.9 |
| | Smokers (MM) | 15.8 | 15.7 | 15.4 | 15.0 | 14.9 | 14.7 | 13.8 |
| | % Smokers 18+ | 29.5 | 29.4 | 29.7 | 29.8 | 29.5 | 29.1 | 27.2 |
| 18+ | Population (M) | 161,949 | 164,549 | 167,110 | 169,348 | 171,647 | 173,652 | 179,397 |
| | Incidence (%) | 33.1 | 32.4 | 31.1 | 29.7 | 29.4 | 29.1 | 28.3 |
| | Smokers (MM) | 53.6 | 53.3 | 52.0 | 50.3 | 50.5 | 50.5 | 50.8 |

* Sources: Attachment A and MDD Tracker (M/A/R/C) incidence.

** Total incidence projections from 1984 MDD External Forecast. Ages 18-24, 25-34, and 35-49 were derived from cohort incidence trends, adjusted by NBER elasticities in 1983 for FET impact on males 18-24 and males/females 35-49 (unpublished MDD analysis). Population projections from Attachment A.

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ATTACHMENT E

MODEL FOR PROJECTING EFFECT OF AGING ON SHARE OF SMOKERS

| AGE GROUP | 1979 | 1980 | | 1981 | | 1982 | | 1983* | | IF HOLDS 1983 YA SOS: 1984 | | 1985 | | 1988 | | IF YA SOS KEEPS 4-YR, TREND: 1984 | | 1985 | | 1988 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS | % IMP | SOS |
| 18-24 Actual SOS | | | | | | | | | | | | | | | | | | | | | |
| Projected SOS | | | | | | | | | | | | | | | | | | | | | |
| 25-34 Actual SOS | | | | | | | | | | | | | | | | | | | | | |
| Projected SOS | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | |
| Incoming | | 11.0 | | 10.7 | | 10.9 | | 10.7 | | 10.6 | | 10.6 | | 30.6 | | 10.6 | | 10.6 | | 30.6 | |
| Remaining | | 89.0 | | 89.3 | | 89.1 | | 89.3 | | 89.4 | | 89.4 | | 69.4 | | 89.4 | | 89.4 | | 69.4 | |
| 35-49 Actual SOS | | | | | | | | | | | | | | | | | | | | | |
| Projected SOS | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | |
| Incoming | | 7.9 | | 7.7 | | 9.9 | | 8.9 | | 8.7 | | 8.6 | | 24.6 | | 8.7 | | 8.6 | | 24.6 | |
| Remaining | | 92.1 | | 92.3 | | 90.1 | | 91.1 | | 91.3 | | 91.4 | | 75.4 | | 91.3 | | 91.4 | | 75.4 | |
| 50+ Actual SOS | | | | | | | | | | | | | | | | | | | | | |
| Projected SOS | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | |
| Incoming | | 4.0 | | 3.8 | | 3.6 | | 3.6 | | 3.5 | | 3.5 | | 10.8 | | 3.5 | | 3.5 | | 10.8 | |
| Remaining | | 96.0 | | 96.2 | | 96.4 | | 96.4 | | 96.5 | | 96.5 | | 89.2 | | 96.5 | | 96.5 | | 89.2 | |
| Actual SOS | | | | | | | | | | | | | | | | | | | | | |
| Projected SOS | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | | 100.0 | |
| 18-24 | | 17.9 | | 17.5 | | 16.5 | | 15.1 | | 14.8 | | 14.5 | | 13.6 | | 14.8 | | 14.5 | | 13.6 | |
| 25-34 | | 25.2 | | 26.1 | | 25.8 | | 25.5 | | 25.2 | | 24.9 | | 24.2 | | 25.2 | | 24.9 | | 24.2 | |
| 35-49 | | 27.4 | | 27.0 | | 28.0 | | 29.6 | | 30.5 | | 31.5 | | 35.0 | | 30.5 | | 31.5 | | 35.0 | |
| 50+ | | 29.5 | | 29.4 | | 29.7 | | 29.8 | | 29.5 | | 29.1 | | 27.2 | | 29.5 | | 29.1 | | 27.2 | |

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re:

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YOUTH SMOKING

November 21, 1983

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YOUTH SMOKING: INTRODUCTION

Concern about the extent of youth smoking in the United States is an old and highly emotional issue. Two generations ago the cigarette smoking boy was the epitome of failure. Children contaminated by the smoke of the weed were considered condemned to a life of poor health and economic disaster. Monographs, some of them attempting to present serious medical research, circulated among school teachers, juvenile counselors, pastors and some community leaders. Henry Ford enlisted the aid of his friends to ban cigarette use among young boys. The campaign had the character and moral fervor of the campaign against alcohol conducted by the Women's Christian Temperance Union, which also condemned smoking.

Today, the issue has been elevated to a much higher plane. Researchers have collected a considerable body of evidence that helps explain why young people adopt the occasional or regular use of cigarettes. A profile of the young smoker is emerging.

But the issue is still clouded by missionary zeal. Smoking is bad and unhealthy, most of the researchers agree, and smoking among the young is disasterous. The moral overtones are absent, but the implications of serious consequences



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for the nation should youth smoking not be curtailed are still present. Some in the research community conceal their feelings about the issue, but others clearly wear the colors on their sleeves. Sometimes this appears to affect their interpretation of the data. For example, in an effort to reinforce their conclusion that cigarette advertising is pandering to youth, two California researchers state unequivocally that cigarette companies intentionally produce ads depicting smokers wearing adolescent clothing and playing at kids' games!

This report is a review of the research reported in the professional and scientific journals. It deals primarily with the "who" and "why" of the youth smoking question. Early research concentrated on attempting to identify the young smoker and to make correlational linkages to common characteristics. For example, because young smokers came from families where smoking was an accepted practice by parents or older siblings, the early work concluded that parental influences were the cause.

Later work used more sophisticated techniques and measures after it became apparent that many factors went into smoking initiation. This later work also began to concentrate on the young nonsmoker in an effort to locate the "high-risk" youth before he tried his first cigarette.

The research is still in its formative stages, according to the academic research clock. Much still is to



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be done. Researchers now understand some factors better than others; peer relationships, a common theme in adolescent behavior research, is perhaps better understood today than, say, the influence of the media on the smoking decision.

Some within the acedemic and medical community have attempted to pull together the existing knowledge only to find their attempts frustrated by the researchers' wide range of standards and measures. They also decry the lack of a systematic method of research, and occasional failure to properly document research, that colors some work. Indeed, frustration may be as high within this group as within the tobacco industry.

Because this report is a review of the research literature, it is shaped by the factors in the smoking decision that have been submitted for study. There are many factors that influence decisions and they have not all been examined.

Some of the factors are not well understood and gross assumptions, particularly about the media, are made. For example, all media influences, including use of cigarettes by actors on television, sampling and promotion of arts and sporting events, are lumped together under the general media umbrella.

This report also covers only research conducted in the United States, but that is not to suggest that youth smoking



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isn't a worldwide issue. Media bans, local customs and cultural differences make a comparison of smoking behavior among nations confusing. It is interesting, however, that the United States is currently experiencing one of the lowest smoking rates among young people of the nations where youth smoking has been studied.

This report, then, may be considerd a benchmark review though it is not as scientific an exercise as that performed by Williams in 1971 and Leventhal and Cleary in 1980. Users of this study should make full use of the references and the scientists who produced the work they represent. The background information not only would be useful in developing educational programs on the youth smoking issue, but also in opening a dialogue that is absent in the literature.

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## HOW MANY YOUNG PEOPLE SMOKE?

### Smoking Surveys: Can we count on them?

In early 1983, Dr. Edward Brandt of the U.S. Department of Health and Human Resources announced that 12.3 percent of the nation's young people between the ages of 12 and 17 were smokers.

Using current population estimates, that means more than 2.6 million young people fit the National Institute on Drug Abuse (NIDA) definition of a smoker: Someone who has smoked at least five packs of cigarettes in their lifetime and has smoked at least one cigarette within the past month.

The health community greeted the news with optimism. After a period of increase in the reported prevalence of youth smoking, the data indicated smoking rates were holding steady at the lowest rate reported in years.

But was the picture a true reflection? Consider the following problems in interpreting this and other survey data:

* Definitions. While NIDA uses one definition of a smoker, the National Clearinghouse for Smoking and Health (NCSH) uses another, slightly different, measure. A young person who smokes five packs in his lifetime but quits the

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week before the interview is counted as a smoker by NIDA and as a nonsmoker by NCSH.

* Sampling. Researchers can't agree on the age of "young people." Some surveys include 12 year olds, others don't. Some include 18 year olds in the sample, others make the cut at 17. The difference may be critical because young people are much more likely to be smokers at 18 than at 12.

* Reliability. Young smokers don't always tell the truth about their use of cigarettes. Smoking carries social stigma among young people and it also can lead to punishment by parents and school authorities. Both introduce bias into the interview. Some self reports on smoking have been found to vary as much as 50 percent when other, more reliable, measures are used.

These problems and others examined in this section do not suggest deception by the research community or a lack of faith in the 25 years of specialized and national studies of youth smoking behavior. Rather, they reflect the variety of opinions within the research community and are recognized as pitfalls in the current work. They also highlight the uncertainty that yet abounds in the question: Why do kids smoke?

What is being measured?

"Care needs to be exercised when interpreting the findings of the studies reported since definitions of such



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terms as 'regular smoker,' 'occasional smoker,' 'experimental smoker,' and 'nonsmoker' vary from one study to the next," said the warning in the 1979 Smoking and Health report from the U.S. Surgeon General.

From 1959, when the first significant study of young smokers was reported in the literature, to the present, the definition of smoker has ranged from a young person who smoked at least twice a month to a teenager who consumed more than a pack a day. One man's smoker was often another's experimenter.

The variety of definitions are necessary because the pattern of youth smoking is so erratic. Restricted by parents, school regulations, and, in some states, the law, young smokers don't have the opportunity to smoke at the same rate as adults. An adult who smokes a pack a week may be considered a casual smoker. The rate is considered much heavier if the smoker is a teenager.

More important, perhaps, is that youth is a time of experimentation with cigarettes, as well as with other adult pastimes. The first cigarettes doesn't always lead to a second though some researchers believe that four cigarettes is an important threshold (17). As a result, more precise measures are necessary.

"Smoking has a long and complex developmental history, beginning well before the first cigarette is smoked and extending sometimes over 5 to 10 years to dependence,"



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Leventhal and Cleary wrote in their 1980 summary of the smoking and health research. (17)

The time of experimentation--usually around the age of 12 or 13--is considered critical. Early researchers believed that once a young person crossed the four cigarette threshold, the odds were strong that he would carry cigarette usage into his adult life.

"Adolescent experimentation with smoking led to adult smoking whether or not the young people had originally intended to become smokers." Data collected in the mid-1960's "showed that 85 to 95 percent of those who smoked four cigarettes became regular smokers."(17)

Recent studies challenge that assumption. Smoking among the young may be a sometime, on-again and off-again thing.

In the first longitudinal study of youth smoking behavior among the young people in the nation -- Green's report for the National Institute of Education (NIE) -- interviewers located young people who had been interviewed in 1974 and reinterviewed them four years later. About 27 percent of the 1974 smokers -- those who used one or more cigarettes per day or week -- had become non-smokers. About 21 percent of the non-smokers had become smokers.(58)

"A comparison of the 1979 current smokers with the former smokers," Green wrote, "seems to indicate that the former smokers, on the whole, may not have been really committed to smoking, but may be more like experimenters. They started



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smoking early and quite early. They did not smoke many cigarettes, and they did not smoke for a long period of time.

A later study confirmed Green's report.(20) "A larger proportion of the (500) college undergraduates had experimented with cigarettes over a period of years but did not smoke now.

"This is an intriguing discovery because it suggests that many individuals may actually experiment with cigarettes [illegible] use them intermittently over the years -- and never become regular smokers. While an assumption of the field is that those who play with cigarettes eventually become habitual users, these data suggest that many who smoke irregularly never move beyond that point."

Leventhal and Cleary also cast doubt on the early conclusions. "Indeed, the data seems to support the hypothesis that it take upwards of two years and possibly longer from initial tries and occasional experimentation to arrive at heavy, consistent smoking."

Thus, the survey reports would record these "experimenters" as smokers. The variety of definitions have helped researchers get a better idea of smoking patterns, but they frustrate attempts to get an accurate picture of the extent of smoking at any particular time.



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Who's being Counted?

Adolescence is a stage of human development. Youth is a relative term. So who should be included in a measure of "youth" smoking? Furthermore, on the question of sampling, what can regional or local studies of smoking behavior tell us about national habits?

It's hard to say.

"It is particularly impossible to provide an unequivocal estimate of the percent of smokers in the United States," Dr. Martin Frankbein reported in his 1977 study for the staff of the Federal Trade Commission (FTC).

National surveys not only have used a variety of definitions to categorize smokers, but they have used different populations for their samples. The results sometimes show striking differences.

A 1975 study for the American Cancer Society (ACS) reported that 29 percent of the nation's youth "smoked." Yet just a year earlier, a NCSH survey of young people reported that only 16 percent "smoked". What happened?

One major difference was the description of a smoker. The NCSH used a much tighter definition of smoker. But another factor confounded the comparison even more. The ACS study surveyed teenagers ages 13 to 17. The NCSH surveyed young people between the ages of 12 and 18.

Researchers consider age a critical factor in the understanding of youth smoking. Accurate reports of smoking among



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12- and 13-year-old boys and girls are necessary in probing the factors of smoking initiation. In fact, Evans suggests that smoking may begin at even earlier ages today.(63) Age also is important in interpretation of the data because older teenagers smoke at about 10 times the rate of younger teens. Yet there is no standard.

Fishbein also warned about other sampling problems and generalizing from local reports. "Generally speaking," he wrote, "the percentage of smokers varies as a function of place of residence (i.e., geographic region, size of community and rural versus urban)." Surveys have found, for example, that more young people in the northeast smoke than do those in the west. He might also have added a caution about generalizing within a community.

Some Minnesota researchers found differences, large differences, between one school and another within the same city.

In 1977, the first year of their research project, the Minnesota team reported that in the four junior high schools under study the percentage of smokers (students who said they smoked at least twice a month) ranged from a high of 11 percent to a low of 4.9 percent.(22)

Fishbein concluded that "the various national surveys have used noncomparable samples and different criteria. Thus, conclusions about smoking behavior that are based on these data must be treated with caution."



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He suggested using other measures perhaps free from such biases to measure the extent of smoking.

Who can you believe?

The University of Michigan's Institute for Social Research, which has conducted a study of high school seniors every year since 1975, has reported a decline in smoking among these people. The rate for those using cigarettes at all dropped from a reported 38 percent in 1975 to less than 30 percent in 1982.

More importantly, the Michigan research report said daily cigarette use dropped over the same interval from [illegible] percent to 20 percent and daily use of half-pack-a-day or more had fallen from 19.4 percent to 13.5 percent between 1977 and 1981. Other national surveys -- NIDA for example -- have shown similar trends. But these reports may not be telling us what we think they are.

One year after Fishbein's report, Dr. Kenneth Warner of the University of Michigan reported that if the U.S. Department of Agriculture's Economic Research Reports are to be believed then Americans aren't telling the truth when asked if they smoke.

Warner calculated the number of cigarettes reported smoked in national survey data and compared that amount with the USDA reports of cigarette consumption, a measure Fishbein had recommended. Warner found a 216 billion cigarette gap in 1975.



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The national surveys, Warner wrote, "not only understate the level of smoking at any point in time, they also present the public with an erroneous view of behavioral change, mixing under the label true changes in smoking behavior with increases in underreporting."(13)

Others have challenged the national consumption rates. "While the reported declines in smoking rates noted in (national) studies are encouraging," a group of Minnesota researchers reported in 1982, "we suggest that these statistics may be invalid because of their reliance on self-report data." (46)

The Minnesota researchers could not find a reduction in smoking among the students they were working with that corresponded to the decline reported in national studies. They said they had expected a change because the community where they were working didn't have a "friendly" attitude toward smokers, ordinances prohibiting smoking in public places plus other anti-smoking measures, had been in place for some time.

Yet they found that "the combined current regular and current occasional smoking rates in the Minnesota sample were consistently higher than in the (NIE) sample, by factors ranging from 1.65 to 3.72.

Problems with self reporting were recognized in early research. In 1969, a University of Illinois team spent nine



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months closely following the activities of 20 smokers and 20 non-smokers in local high schools. One of their findings mentioned that "the incidence of smoking among young people was higher than surveys would indicate. The group least likely to be accurately represented in school conducted surveys was that of the 'popular' boys. These students were involved in school activities and athletics and felt that they would suffer the greatest consequences if their teachers and coaches knew they smoked."(7)

Some researchers have attempted to control this self-report bias through the use of chemical measures of smoking. Evans and others have used mass spectrometic analysis of nicotine in saliva to measure present smoking. Students are shown a film depicting the test and then asked for saliva samples which are then analyzed. "This results in significantly more reports of smoking."

Other investigators are exploring the use of chemical indicators of smoking. However, using only direct chemical indicators as the major dependent measures may be too costly or may only be recording present smoking. They do not adequately record smoking that transpired 3 or 5 hours previously. Clearly, this is an important area for future investigation."(57)



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## WHO SMOKES?

Using labels high school students supplied, a University of Michigan anthropologist divides high school students into two categories: "jocks" and "burnouts".

"The terms referred to both sexes," Penelope Eckert wrote in early 1989), "and are far broader than their reference to sports or drugs would suggest. Jocks and burnouts are distinguished by a wide variety of traits such as dress (Burnouts wear bell-bottomed jeans and rock concert tee shirts whereas Jocks dress 'preppy'); participation in school activities (Jocks do, Burnouts do not); academic programs (Jocks take college preparatory courses, Burnouts take vocational courses); drugs (burnouts use them relatively openly, Jocks do not); and cigarette smoking (Burnouts do, Jocks do not)."

Eckert's description of the high school world is not far from the profiles distinguishing young smokers that have remained fairly constant since Daniel Horn's study of Portland, Oregon, high school students in 1958.

Horn (1) found that smokers weren't involved in extra-curricular activities at school, weren't interested in pursuing their education beyond high school and were low academic achievers.



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Subsequent research of the past 20 years have fleshed out that profile. In 1979, the National Institute of Education surveyed young people between the ages of 12 and 18 and confirmed many of Horn's conclusions, while adding more.

Smokers also were more likely to have jobs after school, come from single-parent homes and, as Horn found, be the children in a home where smoking is accepted behavior by parents and older brothers and sisters.(58)

Early researchers searched these demographic profiles for answers to the "whys" of youth smoking in addition to the "whos." They regularly reported demographic and physiological correlations, with smoking behavior, recorded reports of parental smoking behavior and some personality variables. This first step in the youth smoking research provided few definitive answers, if any, about why young people smoke, but it established a base of information on who smokes.

"One important benefit of these studies," Leventhal and Cleary wrote, "is that they provided us with a good deal of descriptive information about the factors associated with the initiation of smoking. Examples of such variables are social class, use of other drugs, the image of what a 'smoker' is and parental smoking.

"Unfortunately, the studies lacked an adequate conceptual base, and thus their contribution to a truly effective science of prevention and intervention has been limited."(17)

The early picture remains, nonetheless.



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Sex

Girls are more likely to be smokers than boys, are regular smokers as well as erractic and occasional users of tobacco, according to the NIE survey in 1979 (58).

The study found that smoking among boys of all ages has been on the decline since 1974, after remaining steady between 1968 and 1974. The same has not been true for girls.

"Traditionally, smoking has been more prevalent among boys than among girls," the study said. "In 1968, for example, nearly twice as many boys smoked as girls (14.7 percent and 8.4 percent respectively). By 1979, the girls has passed the boys, with 12.7 percent of the girls and 10.7 percent of the boys being classified as smokers."

(Smokers, in this study, were people who smoked one or more cigarettes per week or one or more a day.)

The overall difference," the report said, "is accounted for by one age group, the 17- and 18-year-olds, where 29 percent of the girls smoke compared with 19.3 percent of the boys."

The latest survey of teenage smoking, released by NIDA in early 1983, does not present data separately for boys and girls. But reports on smoking behavior of high school seniors, from the University of Michigan study of youth, indicate there has been no change in this trend. If anything, more girls are smoking and smoking more heavily.(57)



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"This year," the researchers reported, "both sexes showed a small increase in half-pack-a-day use, and females still remain slightly higher -- 14.7 percent vs. 13.1 percent. (At less frequent levels of smoking there is a somewhat larger sex difference, since there are more occasional smokers among females than among males."

Many viewed the increase in smoking among girls with alarm and speculated about the cause. Some observers attributed the increase to changes in social mores, particularly as they related to the participation of women in society. Some saw the increase as a more honest report by girls due to the removal of traditional prohibitions of female smoking. The ACS commissioned a study to determine the cause.

The ACS report said that attitudes toward the women's movement was not the culprit; attitudes were similar among smoking and non-smoking girls. They laid the differences to rebelliousness, a personality trait that sharply divided the two groups.

"The profile of the teenage girl smoker counters the image of the socially ill-at-ease youngster turning to cigarettes as a means of being thought of as more sophisticated or as a needed prop for handling social situations. Instead, it is the teenage girl smoker who is at ease socially, very put together and with full confidence in herself. Parties and social gathers are her metier. One measure of both her sophistication



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and her value structure is the fact that 31 percent have already had sexual relations."

"Compared to teenage girls, teenage boy smokers have changed less than girls in their attitudes, needs and feelings about themselves as far as these relate to smoking. With teenage boys, cigarette smoking goes together with social uneasiness, the need to be popular with the opposite sex, the urge to prove one's masculinity. It is an intrinsic part of adolescent boy rebelliousness -- as it always has been."

A latest comparison of male and female smoking rates among high school seniors found that girls are "overachievers" in terms of cigarette smoking. They now are smoking at higher rates, and more heavily, than would normally have been predicted using factors such as grades, truancy and religion.(6)

Home Environment

A young person's home environment continues to provide one of the best predictors of smoking behavior. Teenage smokers are twice as likely as non-smokers to come from homes where smoking is accepted behavior.

This relationship has been found to remain constant for the past 25 years. In his review of the smoking and health literature in 1971, Williams reported that "Parent and sibling smoking habits apparently interact; in the 1970 survey (of NCSH) the lowest level of smoking was found among teenagers



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who lived in households where both parents were present, neither smoked, and where there were older siblings, none of whom smoked (4.2 percent.)"(54)

In 1979, Green also found a strong relationship between smoking parents and children who smoke. "Overall, it seems to make little difference which of the parents is the smoker, if both parents are present in the household and only one smokes." (58)

Again, the highest rates of smoking among young people were found in homes where parents, and older brothers and sisters smoked (20.3 percent).

Whether a family is intact also makes a difference. Overall, smoking rates are about twice as high in households without both parents.(58)

More recent work(29) found that young smokers' home life is different from those who don't smoke. "Students who reported current cigarette use perceived unsatisfactory parenting practices, lack of family harmony and respect and a general lack of emotional warmth in the home."

Social Class

The early description of young smokers fits the popular notion of the time: a James Dean style rebellious youth, a little rough and tough and disdainful of the traditional high school activities like pep rallies and sock hops. Subsequent



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research tended to confirm Horn's findings. Smoking and socio-economic status may be related.

"Socioeconomic status and youthful smoking are correlated even when the effects of parental smoking are held constant," a Stanford research group reported (15). "Young people who do not plan to attend college are more than twice as likely to smoke as are their more economically and educationally advantaged college-bound peers."

Green reported in the longitudinal study for the NIE that young people who aspired to higher educational goals, and later went on to college or post high school study, were less likely to smoke than those who dropped out of high school or didn't continue their education beyond the 12th grade.

But there is some noise in the data, perhaps attributable to the self reporting biases mentioned earlier. The consequences of smoking in public and the stigma of being a smoker may have kept some middle to upper class youngsters from a truthful answer to a surveyer's question.

A replication of Horn's 1968 study had a separate component in which researchers paid particularly close attention to a subsample of 40 students. They found that the "popular" boys, those who didn't fit the traditional description of smokers, kept their cigarette use private to avoid punishment. Eckert found the same thing in her study of students at a Michigan high school.



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But an important factor may be the youngster's own perception of where he stands in the social and economic pecking order. In 1969, Liberman Research, Inc. reported in a study for the American Cancer Society(56) that "it is status orientation of the teenager himself -- rather than the socio-economic status of his parents -- which is associated with whether the teenager has the smoking habit."

Age

Liberman found in 1969 that the median age for a young smoker's first cigarette was 12.(56) But the smoking experience begins long before a youngster takes his first puff.

Children develop attitudes about smoking and have images of what smoking is like well before they try it. These attitudes seem to be important in the development of the smoking habit, wrote Leventhal and Cleary.

Indeed, very young children are aware of smoking in their environment at pre-school and first grade.(36) In a study of tobacco awareness of youngsters, researchers working in a Scranton, Pa., school found that 25 percent of the children in first grade and a preschool class had already tried cigarettes. (Researchers warned against generalizing from this urban sample.) The kids also easily recognized tobacco products -- cigarettes and cigars -- and paraphernalia like pipes.

Most researchers in the field seem to agree, however, that the opinions of adolescents change when they move from the 6th to the 7th grade.



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"The significant main effect found for grade indicates that at grade 6 the shift away from more negative attitudes has started to occur," Canadian researchers wrote in 1981.(27)

Evans(14) found in research with Houston school children that the "critical period of susceptibility to social influences to begin smoking is on entering the seventh grade."

Most national surveys of youth smoking behavior are designed to record smoking in the early years of junior high students. What they have found is that as young people get older, so does their experience with smoking.

The 1979 NIE study found that about 3 percent of the 12 to 14-year-old boys were smokers. Nineteen percent of the 15- and 16-year-olds were smokers. Among girls, just more than 1 percent of the 12 to 14-year olds were smokers while 26-2 percent of the 17- and 18-year olds smoked.

Race

Very little data is available on racial or ethnic differences in smoking behavior. Preliminary field work for the Berkeley anti-smoking project -- Risk and Youth: Smoking( -- found little difference between the smoking behavior of whites and blacks. However, all but one of the Chicano students had tried smoking and 40 percent of the 8th grade Chicanos said they currently smoked.

No Asian students reported smoking.



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National surveys of youth smoking behavior have not reported any racial distinctions.

Personality

Personality variables have long figured in the research of youth smoking behavior, but, said Williams in 1971, "the relationships between smoking and personality variables have often been tenuous and occasionally contradictory. Even when related statistically significantly to smoking practices, personality variables have seldom been found to account for more than 2 percent of the variance in those practices, so there utility for prediction is limited."(54)

This has not stopped researchers from completing the profile of the smoker.

In 1969, Lieberman(56) reported these characteristics of youthful smokers and non-smokers:

"Smokers are more anxiety-ridden; non-smokers are contented;

"Smokers are more experimental; non-smokers, more prudent;

"Smokers are more socially precocious; non-smokers, less socially advanced."

"Smokers fight the values of the Establishment; non-smokers accept the values of the Establishment."

Ten years later, the Stanford University research group wrote "although one must be cautious in interpretation, a number of measures of 'personality' characteristics are associated with adolescent smoking. These include rebelliousness,



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social confidence and tolerance for ambiguity, anxiety and arousal-seeking, wishing to be older and delinquency and its correlates."(15)

But Evans and later researchers have restated Williams' earlier warning about the use of personality variables to predict smoking behavior.

"The notion of being able to identify potential smokers has been an elusive goal for researchers. There are very few investigations relating personality variables to teenage smoking. There appears to be some agreement that personality is more related to the amount smoked rather than to who will begin to smoke," Evans wrote.

This observation was confirmed later, in the RAY:S study at Berkeley. Researchers reported in November, 1982, that many of the "myths" about the personalities of smokers and non-smokers do not exist or are very weak determinants of future smoking behavior. "Our smokers and non-smokers were more alike than not in the importance they play on acceptance and independence from their family and friends," they reported to the American Public Health Association meeting in Montreal, Canada.

In addition, they said, "one of the common myths about smoking adolescents is that they are low in self-esteem. But, this research found that smokers and non-smokers differed little when measured on a standard scale of self-esteem.



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"In review," they said, "our findings indicate high-risk adolescents (those who might be inclined to smoke) differ only slightly, if at all, from those who have effectively avoided the social pressures to smoke."

Drugs and Alcohol

Youthful cigarette smokers are more likely than non-smokers to use drugs and alcohol. In fact, the federal government has included usage of cigarettes in its study of drug abuse in the United States. The association between the two has not been a primary focus of the smoking research community. Researchers, more often than not, have simply included the use of drugs as another characteristic of cigarette smokers.

Among teen-age girls who smoke," the 1976 study for the American Cancer Society reported, "25 percent use marijuana regularly compared to 3 percent of the non-smokers; 81 percent of the smokers drink and 32 percent drink at times to get drunk compared to 42 percent of the non-smokers who drink or 4 percent who drink to get drunk.

Lieberman associated drinking with the smokers as just another personality characteristic. Smokers were more inclined to use adult products, like beer and wine, while non-smokers were more interested in child products like gum and candy.

The latest data comes from the 1982 survey for the National Institute on Drug Abuse. The NIDA report states that "current



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smoking is related to the use of alcohol, marijuana and various other drugs. For example, among older adults, 71 percent of current smokers report current alcohol use, in comparison to 49 percent of non-smokers. Among young adults 43 percent of current smokers report current marijuana use, in comparison to 18 percent of non-smokers.

What do we know?

We know more about young smokers today than when Daniel Horn first began questions of teenagers more than 25 years ago. The characteristics that Horn identified helped shape the research of the next 10 years. As research techniques became more sophisticated, so did the profile of the young smoker.

But some characteristics are difficult to measure and the profile of the smoker must be viewed against the society in which he lives. Tamerin attributed the increases in smoking not to bias in reporting, nor to the influence of the media, but to change in society.

"There are many signs that change has been occurring at an accelerated pace during the past few years in adolescent values, behavioral mores, and attitudes toward adults and adult institutions," he wrote in 1973 against the backdrop of the Vietnam War. "These changes in value and behavior patterns are in the direction of those characteristics of smokers."(9)



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And the research, viewed in the context of scientific research, is just beginning; it has suffered growing pains. What we have are fragments that appear to present a picture. Evans said the ability to identify potential smokers is an "elusive goal."

"No conceptual framework or organized line of research has systematically guided the research related to individual characteristics in the initiation of smoking, and the literature reflects the patchwork quality of the existing knowledge." (63)

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DRAFT

WHY DO KIDS SMOKE?

Most teenagers believe that smoking is harmful to health. Most say their friends frown on heavy smoking and parents and teachers generally discourage young people from smoking. In most states, cigarette smoking by children is at least implicitly illegal. So, why do kids smoke?

No one knows for sure.

"Our review of the smoking literature," Martin Fishbein told the Federal Trade Commission in his 1977 report [6], "made it abundantly clear that, at the present time, there is relatively little that is actually known about the basis (or determinants of) a given smoking decision.

"Despite the enormous amount of research on smoking that has been conducted, theorists and researchers in the smoking area have been unable to develop an empirically supported, systematic theory of smoking that can account for people's decisions to start, continue, or stop smoking."

Researchers appear to agree on three things: (1) different factors underlie the different smoking decisions, (2) there are a large number of factors, and (3) these factors affect different people differently. In short, 25 years after Daniel Horn's first study, the field is relatively wide open.



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The research of the past 25 years has produced a wealth of ideas and hypotheses. A youngsters' age, home environment, status with his peers, personality and involvement with drugs have been proposed as reasons. A young person's involvement with and standing in school, his after-school activities -- whether he works or plays sports -- make a difference. A teenager's ability to deal with the trials of growing up, coping with adolescent pressures figure into the equation.

"Some may feel anxious and inadequate and smoke to achieve social acceptance and be part of the gang," Leventhal and Cleary wrote. "Others may share a wide variety of experimental activities with a close friend, and smoking may simply be one of the experimental and risk-taking actions.

"These two sets of factors, defining the self as adult and seeking social approval, are not likely to exhaust the attitudes that make up the preparatory stage (to smoking)."

From this garden of choices researchers have plucked three reasons that encompass most of the social and home influences that have been found most relevant: the pressures of parents, peers and media. The media is most often described as cigarette company advertising, but some studies also include the appearance of cigarette smoking actors on television and the movies.

Richard Evans of the University of Houston is most frequently cited as the one smoking and health research to identify these three dominant factors. But Evans' work, and that



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of many others, was designed for smoking intervention programs, rather than pure psychological research. While these studies have added much to the examination of anti-smoking programs for adolescents, they still have not produced a complete understanding of the why of the youth smoking question.

"Most research on adolescent smoking," Chassin and others wrote in 1981, "has focused on cross-sectional comparison of smokers and non-smokers: differences in personality variables, attitudes, beliefs and peer relationships.

"However, because differences between smokers and non-smokers may result from the smoking behavior itself -- that is, to say, once an adolescent begins to smoke, that behavior and the newly-acquired status of a smoker may influence his or her perceptions and attitudes -- these studies do not provide a clear understanding of smoking initiation."(38)

"The results of this next phase of research is beginning to make its way into the literature. Already it has challenged some commonly held notions about the influences of peers and parents and help expand an understanding of them. For the most part, however, Fishbein's call for a complete understanding is unanswered.

Parental Influences

One of the constants in the youth smoking research is a strong relationship between the smoking behavior of parents and that of their children. In homes where one or both of



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the parents smoke, children are more likely to smoke than children who come from homes where parents don't smoke.

Daniel Horn found this in his 1958 study of Portland, Oregon, high school students. "In the Portland study," Horn reported in 1960, "we found that first, and most important, is whether or not the parents smoke."(2)

Twenty years later, a national survey of youth smoking behavior conducted for the National Institute of Education found the same relationship.

"In families where one or both parents smoke," Green wrote in 1978, "the respondent is more likely to smoke than if neither parent smokes. Among boys, in homes where both parents smoke, 13.5 percent of the sons smoke; and in homes where one parent smokes, 9.1 percent of the boys smoke; and in homes where neither parent smokes, 5.6 percent of the boys smoke. Comparable percentages for girls are 15.1 percent, 12.7 percent, and 6.5 percent, respectively."

While early research showed some relationship between the sex of the child and the sex of the parent who smoked, Green reported that, "Overall, it seems to make little differences which of the parents is the smoker, if both parents are present in the household and only one smokes."(58)

But while the relationship has remained strong, and held steady through the years, researchers haven't identified the factors to explain it.



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Horn reported (2) that what seems important "is that smoking is accepted by the family as a normal and expected form of behavior. As such, smoking by the younger members of the family is part of growing up." In addition, when family members smoke, cigarettes are already in the home and available to young experimenters. Children don't have to run the risk of embarrassment or censure in purchasing their first cigarettes.

In addition, role modeling is strongest in the years of early adolescence, and before, and these are the years, Leventhal and Cleary reported, that are part of the preparatory stage of smoking, the time before a youngster takes his first puff but when his opinions about smoking are developing. (17)

A 1981 report on research among first graders and preschools found that, "Knowing someone (usually a parent) who smokes cigarettes is significantly related to the desire to smoke. This effect was especially strong for pre-school children." (36)

But, wrote Williams in his 1971 review of the literature, "Whether the relationship between a child's smoking behavior and that of his family reflect mere availability of cigarettes, modeling behavior, or even more complex an identification process, is not altogether explained by the evidence."(54)



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Commenting in 1979, McAlister wrote, "The exact mechanism for this relationship is uncertain and probably varies from case to case. It almost certainly includes identification with parents as role models, greater perceived or actual permissiveness regarding smoking, and increased opportunity for surreptitious smoking."(15)

Anti-smoking programs developed for junior and senior high schools often include a component to deal with parental influence. But aside from identifying it as an influence, little new was written in the 1970s until researchers began to compare parental behavior with parental attitudes toward smoking.

Horn noted in his early study that 10 percent of the boys he interviewed smoked despite parental disapproval. The question was not pursued by others, perhaps under the assumption that parental actions speak louder than parental prohibitions. The research community also was more interested in the influences of peers than parents.

In early 1983, researchers at Illinois State University wrote, "While an abundance of literature indicates a relationship between parental smoking and youth smoking, less attention has been directed to the importance of parental attitudes toward smoking and still less to determining the relative importance of these variables upon youth smoking behavior." (51)



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"Today, it sometimes appears fashionable to discount the importance of the parental role," they wrote in the Journal of School Health.

Their findings indicated, however, that "parental attitudes may be more important" than parental behavior in determining whether young people smoke. They found that if parents who smoked forbade or discouraged their children from smoking, their children were less likely to smoke than smoking parents who didn't express disapproval.

"What is surprising is the observation that smoking behavior increases at a greater rate across the attitude dimension than the behavior dimension. The smoking behavior rate doubled while holding the parental attitude constant. However, the youth smoking behavior is held constant."

"The impact of parents on the social environment of their children, along with their own behaviors and attitudes may be more significant than we formerly believed."

Other research supports the findings of the Illinois research group. Parental influences were examined by researchers at the University of California's Lawrence Hall of Science. "This pervasive influence of parental smoking behavior is reflected in yet another aspect of our data: parental prohibitions against smoking are an important determinant of cigarette usage.

"The smokers in our sample saw their parents as more tolerant of their smoking, while the non-smokers carried with



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them a deep sense of prohibition and, in many cases, smoking was forbidden in the household. The experimental smoker feels neither the tight constraints of the strong anti-smoking family ethic of many non-smokers nor the perceived permissiveness of many regular smokers, but instead falls somewhere in between."(39)

But, while this study found that parental attitudes and behavior do play a part, family dynamics as a whole may not be as big a factor of the smoking decision for young people as was once thought to be the case. When the California researchers compared smokers and non-smokers on 28 family items in their questionnaire, current smoking involvement accounted for less then 5 percent of the variance. That is, things other than smoking were influencing the young people's answers to the items on the questionnaire.

Research by Chassin(38) produced similar findings. The behavorial intentions of young people -- their plans to smoke -- didn't show a strong or consistent relationship to parental or sibling smoking status. One conclusion, they wrote, was that parental influences are independent of other contributing factors. Acceptance of smoking in a home may sanction a young person's own smoking, but the inclination for smoking stems from something else.

A strong influence is one's peers.



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Peer Influence

One of the most reliable predictors of a young person's smoking behavior -- even stronger a relationship than parental behavior -- is whether he associates with other young people who smoke. The 1979 NIE survey found that among smokers, "An overwhelming majority (87.6 percent of boys, 94 percent of girls) indicated that at least one of their four best friends was a regular smoker, while only 10.2 percent of the boys and 5.9 percent of the girls indicated that none of their four best friends smoked regularly.

"Non-smokers showed exactly the opposite reaction."(58)

Strong, consistent data such as this persuaded researchers to shift attention away from parents to the conclusion that peer pressure is an even greater factor in the youth smoking decision. Reasons given for smoking by young people -- willingness to conform, go along or enhance their position socially -- reinforced the survey results.

In addition, other research has shown that peer pressure is strongest in early adolescence when most smoking experimentation occurs.

Despite "sparse" social science research into just how, and how much, peer pressure impinges upon teenagers(64), some researchers cast these findings into a simple equation in which conformity and peer pressure combine to lead young people into smoking. "One can conclude that adolescents



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who smoke are more vulnerable to peer pressure and have a higher level of conformity than non-smoking peers," according to Del Greco's report on the literature.(28)

In 1979, McAlister(15) wrote: "The power of peer influences and conformity to pressure among early adolescents is well known. The pretext of pressure to smoke appears to be related to the way that smoking functions as a sign of independence from adult authority and of maturity. A youngster who refuses an offer of a cigarette may be called a 'chicken' and may even risk being excluded from a gang in which membership makes it safe to venture into urban streets after dark.

"The young person who accepts an offer of a cigarette not only gains greater acceptance from smoking peers, but also the appearance of being more 'tough,' 'cool,' 'mature,' and adventurous than his or her non-smoking peers."

But the questions may not be so clearcut. Evans, in the 1979 Surgeon General's report, wrote, "Peer pressure is widely assumed to be a significant causal factor in the initiation of smoking. The strong influence of peer group pressure is generally evident in young adolescents," but he added, "the precise relationship of such pressure to the initiation of smoking is more difficult to establish."

Therein lies the rub. As they found in probing the elements of parental influence, researchers so far have been unsuccessful in determining exactly how peer pressure affects an individual and the smoking decision.



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"Adolescents who smoke have friends who smoke, and those who do not smoke apparently associate with non-smokers," Green wrote in 1979. "That fact has often been cited as evidence for the contention that teenagers smoke because of 'peer pressure.' That is probably true when the group that the teenager sees himself as a member of -- or would like to be a member of -- embraces a lifestyle that includes smoking as a norm.

"On the other hand, the teenager who identifies with a group that normally does not engage in these activities is likely to feel little or no peer pressure to smoke cigarettes. That is simply confirmation of the often observed phenomenon that people who have common interests and common goals tend to associate with each other."(58)

Williams observed that underlying dynamics of smoking by peer groups are not clear. Why do some children choose friends who do and some choose friends who do not smoke. It is unlikely that individuals who do not smoke become friends and then as a group decide to take up smoking; rather it is more likely that children with similar interests become friends and that smoking is or is not salient among those interests."(54)

Indeed, other research has shown that smoking is but one of the characteristics of a group. In a Minnesota study, Hurd said smoking went along with curiosity, adventurous and precocious striving for adulthood.(22)



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Eckert found that cigarette smoking was a "key symbol" that set groups apart in the Michigan high school where she researched teenage behavior. "The symbolic value of smoking is apparent to even the most casual observer: dramatic craving gestures frequently serve as greetings, and exchange of cigarettes is an important gesture of solidarity. Sharing is a common way of solidifying ties within social groups ... Burnouts (the label given by teens for the smoking group) share a variety of possessions and commodities such as cars, clothing, and information, with an intensity that Jocks (the non-smokers) do not show.

"Cigarette sharing is particularly intense, and frequently purely symbolic: cigarettes are often given but not smoked until later."(48)

The situations are varied and different and researchers have not investigated all the combinations that might lead a young person to smoke.

In many ways, the current interest in research is a return to an observation made more than 10 years ago by Levitt that peer group status supports smoking, but it does not necessarily initiate it.(6) His conclusions contradicted some of the prominent research of the time, but work at the University of California's Lawrence Hall of Science on the Berkeley campus tends to support his initial findings.

In a study of 800 young people, aged 10 to 15 years, the California research team found that "contrary to working



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assumptions in the field, overt peer pressure as an instance of smoking temptation rarely emerged. Seldom did teens describe being confronted by a gang leader or other dominant individual who insisted that the youngster smoke.

"Rather, smoking temptation and social pressures to smoke appears in far more subtle contexts. These trends suggested that the pressure to smoke may originate within the individual, as opposed to being manifested in blatant external forces."(28)

The Berkeley study also challenged another commonly held assumption: that smokers are more likely to conform than non-smokers. Del Greco wrote that smokers were conforming to group norms at the expense of their own individual values to be accepted.

But the Berkeley group found that smokers and non-smokers are both conformists. They simply are conforming to different standards and values.

"Smokers are marked by an adherence to independence and self-determination in their dealings with parents, yet hold interpersonal beliefs that led them to conform to their friends' thoughts and actions.

"Conversely, non-smokers believe systems were permeated with a need for autonomy and interpersonal equity. Yet, as evident throughout their belief structure, non-smokers conformed, but for them conformity meant adherence to parent's standards."



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The writers concluded: "clearly more than simple peer pressure or parental role-modeling is involved."

As Eckert found in her year in the Michigan high school, for young people who smoke, cigarettes are currency for coping, in this case, with "fundamental development tasks, while those who resist may be involved in a more well-balanced personal and interpersonal maturation process."

But the California research group asked, what then causes some young people to smoke and others to resist the temptation? They found three factors that distinguished their study groups.

The first was a belief by smokers that smoking helped them live through the awkwardness of adolescence. Also, the young smokers believed more than non-smokers that cigarettes gave them an air of sophistication, maturity and independence, helped make them a more exciting person, and offered relaxation. Combined, they wrote, these factors "are the most powerful discriminators of smoking behavior that we have uncovered, accounting together for almost one third of the variations in actual smoking intentions."(39)

The other two dominant factors involved information about the risks of cigarette smoking and a tendency among smokers to "deny facts about the hazards of smoking and personal responsibility for one's actions."

These two factors deal with images, information and media messages, the third major influence as identified by Evans.



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Media Influences

Why do young people smoke cigarettes in spite of their own acceptance of the reports about the hazards of smoking? The most commonly cited answer is that the pressure of parents, peers and the media "override the belief of adolescents that smoking is dangerous."(34)

Of these three factors -- and they are the most widely accepted by the research community -- perhaps the least understood is the influence of the media.

Researchers have used sophisticated measures and powerful computer techniques in attempts to unlock the secrets of the adolescent mind, probing the pervasive influences of a child's friends and his parents. But mainly intuition, not scientific evidence, supports the inclusion of media as one of the three influences.

"There is no solid evidence that tobacco advertising exerts a direct influence on the adoption of smoking during adolescence," McAlister wrote in 1979. "But it may significantly contribute to peer pressure...by supporting the use of cigarettes as a sign of autonomy and maturity.

"It is hard to believe," McAlister said, "that the advertising does not at least support the other factors that influence adoption of smoking."(15)

In the mid 1970s, Evans and his colleagues at the University of Houston, were developing an anti-smoking program for



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the Houston schools. The program was designed to "inoculate" students before they begin smoking by helping them build defenses against the pressures to smoke cigarettes. In his preliminary fieldwork, Evans identified peer pressure, parental pressure and media influence as the major factors affecting the youth smoking decision.

Evans' source for these three factors was a small sample of young people, school teachers and principals. It is not known exactly how large a sample they used because Evans describes the group differently in three major research papers published in the academic and scientific literature.

In his first paper, Evans said the pretest sample was "175 school children and teachers in grades five through seven."(10) In a subsequent paper published two years later, he said the preliminary field work involved "in-depth interviews with a sample of 130 school children and their teachers and principals."(14) A third description appeared three years later, near the conclusion of his study, when Evans said the preliminary work involved "in-depth interviews with a sample of 120 seventh grade students."(34)

Despite this modest, and confusing evidence, Evans was largely responsible for media influences being listed as one of the top three factors of youth smoking in the research literature of the past six years. Prior to his report, the influence of the media was seldom considered and when it was, researchers reported it as a minor factor in smoking initiation.



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"Attitudes toward television cigarette commercials also did not enter into any of the three predictor sets," Eugene Levitt wrote of this 1969 study of youth smoking. "This is in accord with the report by Lemin that the brands of cigarettes smoked by British adolescents were unrelated to the frequency, duration, or number of homes reached by television commercials for the various brands. It suggests that elimination of television cigarette commercials would not materially affect youthful smoking behavior."

Levitt attributed smoking initiation by young people to other factors -- peer and parental influences mostly -- and his conclusions soon became moot when cigarette commercials moved from the broadcast to the print media after 1971.

While the literature indicates that little solid research was undertaken during the early 1970s, the issue of cigarette advertising did not wane with the passing of television as the largest commercial client. The impact of advertising continued to be a very topical subject with the issue still largely unexamined.

"It is easy to understand why tobacco advertising has become a topic of major interest," Warnberg told the 3rd World Conference on Smoking and Health in 1975. "It is the most striking component in marketing efforts. One common conclusion is that people smoked more than they otherwise would, as they can hardly avoid coming in contact with advertising.



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is therefore scarcely surprising that the idea of reducing tobacco consumption by banning advertising has become widespread."

Warnberg examined the smoking experience in countries where advertising isn't permitted and found, as others did after him, that consumption continued to climb without it.

"To summarize, there is no evidence to support the view that a ban on advertising would have a positive effect on smoking habits. No empirical research has been able to show that aggregate brand advertising leads to greater total tobacco consumption. Nor has anything been found to suggest that advertising entices non-smokers, young people in particular, into becoming smokers."(65)

A study by Waterson for The Advertising Association(66) confirmed Warnberg's comments. Waterson examined consumption in countries where advertising bans have been imposed -- Italy, Norway and Poland -- and found that consumption continued to climb. Waterson also quoted Levitt and Kaplan, who said in their 1977 report on the effects of the television advertising ban, that advertising is one of the least significant factors in youth smoking initiation.

The 1979 Surgeon General's report review of "Mass Media and Smoking" said, "As the cigarette industry has asserted, the major action of cigarette advertising now seems to be to shift brand preferences, to alter market shares for a particular brand."



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A group of Pennsylvania researchers put the question - does advertising sell more cigarettes or shift brands - to students in 28 junior and senior high schools in their state. Rather than compare gross consumption figures, a team from Pennsylvania State University examined teenagers' responses to both anti- and pro-smoking messages received at school, at home on television or in billboard and magazine advertising.

They found that promotional cigarette advertising did not appear to exert direct influence on the adoption of smoking during adolescence.(30)

A large majority of smokers and non-smokers said billboard and magazine advertisements made others want to smoke, though larger percentages (81.1 percent for smokers and 86.4 percent for non-smokers) said the ads help people choose brands.

Speaking of the influence of the ads on themselves, half (50.4 percent) of the smokers and fewer than one in seven (13.6 percent) of the non-smokers said billboard and magazine ads made them want to smoke.

The writers, looking particularly at non-smokers, minimized the impact of the ads, but warned: "Promotional smoking advertisements on billboards or in magazines are very effective in depicting smoking as enjoyable or pleasant to teenagers, and teenage smokers' desires to smoke is reinforced by these advertisements."



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The effect of the image or "lifestyles" advertising is the object of the one current research project examining the media phenomenon. Two UCLA Cancer Center researchers, Wong-McCarthy and Gritz, have propcsed that young people associate with the desirable characteristics displayed in ads and subsequently want to smoke to adopt that image.

"By any measure," the two wrote in 1982,(47) "cigarette advertising is an undeniably common potential source of information and influence in the lives of American teenagers. There are reasons for suspecting that cigarette advertising would influence teenagers to adopt the smoking habit. One reason is that theme advertising, while ostensibly peopled by adult (over 25 years old) models, often portrays its models as engaged in activities and dressed in clothes that are suitable only for adolescents.

"Secondly, the sheer ubiquitousness of cigarette advertising -- in magazines, in newspapers, in sports arenas and on billboard displays -- encourages the teenager to think of smoking as a more popular habit than it actually is."

The two supported their conclusions with a casual examination of advertising content of nine popular magazines (Time, Sports Illustrated, Popular Science, Psychology Today, and Glamour were the only ones identified). They reported that the proportion of "cigarette ads to all ads ranged from a low of 7.2 percent for Glamour to a high of 29.1 percent for Psychology Today."



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The report did not include any readership data to suggest how many adolescents may have seen the ads. The Audit Bureau of Research, readership standard for the publications industry, does not report adolescent readership for these magazines. As a result, there is no way to measure how many young people saw the ads in Psychology Today, the very upscale book -- economically and intellectually -- that led the sample.

Again the argument was based more on intuition than on hard evidence. No data has been reported from the UCLA Cancer Center advertising study.

Another group has probed the same question, though from a different perspective. The results may have implications toward an understanding of adolescents and image building.

"If adolescent smokers are generally perceived as sophisticated, attractive and socially successful (the kinds of images portrayed in cigarette advertising)," Bartos, Chassin and Presson wrote recently(40), "then adolescents may begin to smoke in order to attain these characteristics both in their own eyes and the eyes of their peers."

The authors hypothesized that a young person's intention to smoke might be measured by how he responds to peer models in smoking and non-smoking situations. Children who rated the various pictures and poses in a favorable way would be more likely to smoke, they reasoned.



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Further, they suggested, children in early adolescence should be the most susceptible because that is the time when conformity to peer norms is the strongest.

They found generally that social image was related to intentions to smoke, but the findings were ambivalent.

But, they wrote, "for the early adolescents, especially girls, the intentions were primarily related to more negative aspects of the social image of smoking." Models were perceived as less healthy, less likely to do well in school and less desirable as friends among this predominantly middle class group of school children, which suggests a major question in the effects of media advertising on the young.

Researchers have reported consistently that young people who smoke do not subscribe to the middle and upper class values most often portrayed in media advertising. What messages, then, do they receive from the popular "lifestyles" poses that are the object of the current UCLA Cancer Center research.

There is no answer yet.

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## IN-SCHOOL SMOKING AND HEALTH PROGRAMS

Anti-smoking education programs in the public schools have come a long way from the moralizing sermons, threats of dire consequences and sure punishment that teachers once heaped upon their students. Today, the "teacher" could easily be another student, perhaps even an older teenager, an unconventional and adventurous sort, who has been recruited by adult program leaders to help younger students build defenses against the social pressures to smoke, or use drugs and alcohol. Instead of merely counseling students on smoking, the sessions might include a healthy dose of advice on how to cope with a range of difficulties of growing up.

Some of the old preachy programs inspired by the Women's Christian Temperance Union may still exist. But a recent publication of the National Cancer Institute lists 35 different alternatives to serve as models for teachers, school administrators and others who work with young people. And these don't exhaust the possibilities.

The extent and number of the smoking and health programs is difficult to quantify. Many ongoing research projects include training and education components. Private, non-profit groups like the American Cancer Society contribute



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heavily in time and money. But, in 1990, the federal government spent $10 million to extend kid-to-kid programs developed in Texas and California across the country. Two years earlier, one review of the program in schools around the nation mentioned more than 100.(17) Evans said literally thousands of programs exist.(57)

"The programs are varied," Leventhal and Cleary said. "The most limited might include lectures by the school principal or a physician and posters displayed about the school. More intensive programs add threat films, teacher participation (e.g. introducing material on smoking into science and hygiene classes) and student participation (e.g. planning communication content, poster construction, anti-smoking essays and group discussion)."(17)

Leventhal and Cleary said these programs have met with some limited success, increasing anti-smoking attitudes for a time, but "it is conceivable that prevention programs merely delay the onset of smoking rather than actually reduce the proportion of youngsters who become smokers."

They said that while the studies and experimental anti-smoking programs have added some understanding of the youth smoking problem, contributing some descriptive factors, they have not dealt with the motivations to smoke.

Others would dispute this view. Researchers such as Richard Evans of the University of Houston, Gilbert Botvin of Cornell University's Medical College and Alfred McAlister of



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Harvard University's School of Public Health developed models and put sophisticated programs into school classrooms in the late 1970s. Their findings and results were published at about the same time that Leventhal and Cleary were completing their survey and all of the later data may not have been available to the critics.

What all would agree on is that just as there is no single identifiable cause of youth smoking, neither is there a single program that has produced conclusive evidence of effectiveness.

Along their path of investigation, they learned much about young smokers and about some methods that at least hold some promise of success. But the building process is continuing.

Early Programs

With the 1964 Surgeon General's report as their standard, the early anti-smoking programs used a logical approach, dealing with youthful smoking on an intellectual level. The theory was that if the facts were presented, young people faced with possible serious illnesses in later life would refrain from smoking. The target audience was primarily senior high school students.

By the late 1960s it was clear this approach did not work. Teenage smoking increased and the health warnings about smoking appeared to have had little effect.

"It would appear that the remote theme which emphasized the long-term disease effects of cigarette smoking holds



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little relevance for the teenager of today who is perhaps more concerned with immediate problems," a research team from the University of Illinois concluded in 1967.(7)

In addition, not only did they have the wrong message, but perhaps the wrong audience. Instead of beginning with high school students, a third or more of whom already smoked, these researchers said the eight grade was the critical time. Later work dropped the age even lower to grades four to six.

Research in the late 1960 and 1970s into adolescent behavior also was beginning to show that information alone was not sufficient to change behavior. While it could influence attitudes, a behavioral change was beyond the reach.

"To teach a non-behavior (non-smoking)," the Illinois study concluded, "in the presence of models of the behavior (smoking) is a difficult task, especially when there is the possibility that the behavior may be satisfying underlying psychological needs. Is it practical to discourage a behavior that may serve a purpose that is not fully understood? Until it is known why people smoke, there is limited potential in trying to stop this behavior."

The decade following Daniel Horn's signal study of teenage smoking, which led to the opening efforts to redirect the anti-smoking program in the schools ended on a sour note.

A Turning Point

In the early 1970s a group of doctors and others in Houston were fighting tooth decay. More specifically, Dr.



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Richard Evans, his colleagues and students, were attempting to develop an effective program of oral hygiene when they began to shift the social-psychological approach used in one health problem to smoking behavior among young people. From their previous work, they had recorded certain conclusions from their work and others in the smoking field:

* Use of fear -- warning of dire consequences -- was not an effective persuader. In spite of a concerted campaign developed from the 1964 Surgeon General's report, teenage smoking increased.

* Smoking and health programs were reaching young people too late in their smoking career, if they were developing one. Most addictive smoking, they said, began before high school not after, and to be effective a program should begin in the seventh grade.

* Anti-smoking messages fell into a "time perspective" trap. Previous efforts had focused on long-term effects of smoking when young people were "present-oriented" and could be more affected by the immediate physiological consequences of smoking.

* Social psychologist's approach, aimed at "innoculating" teenagers against the pro-smoking messages from peers, parents and the media also was needed. Adolescents could be trained to recognize and cope with social pressures to smoke.

The Houston project scored initial successes. In his first report on the program, Evans said young people who had



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been "innoculated" reported lower smoking onset rates than those who had not been a part of the program.

Evans used a sequence of short videotapes, with young people as actors, that taught students how to deal with friends who urged them to smoke, or parents who smoke and cigarette company advertisements that he said encouraged youthful smoking.

Posters used in the program read: "You don't have to smoke just because your friends do. YOU can resist peer pressure." Another dealing with a parent who smokes read "Even if your parents smoke you don't have to imitate them. YOU can decide for yourself." The Marlboro advertisement was a target with the cowboy figure shown offering a cigarette to a passing student. The caption read: "Cigarette ads are a rip-off! You can resist media pressure to smoke."

The program also included discussion groups, feedback sessions and monitoring of students smoking behavior. Evans wanted to measure five things: smoking information, smoking attitudes, intention to smoke, reported smoking behavior and clinical tests of smoking.

A basic principle of Evans project was that previous work had failed because traditional messages did not "acquaint children with the social pressures to smoke to which they are exposed and how they can cope with these pressures."

Others had begun to experiment with this new approach. McAlister's project, called CLASP (Counseling Leadership About Smoking Pressures), was part of the Stanford University Heart



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Disease Prevention Program. McAlister called the Houston work "one of the greatest advances in research on the prevention of smoking" but said the program was flawed because it used videotaped messages rather than real people working with students. (15)

McAlister recruited older young people -- and this was an important distinction. They were not young people who usually were identified as "leaders." They didn't belong to the honor society, captain of the football team or otherwise qualify on the traditional leadership scales. They were, McAlister said, those judged most attractive to the kind of young people who smoke: "Fonzie or Mod Squad types who are adventurous and unconventional but not unhealthy in their behavior."

McAlister(20) reported cutting smoking onset rates by half. A footnote to the program: researchers said they had trouble getting junior high teachers to accept the peer leaders chosen to direct the discussion groups.

During this same time, Botvin took Evans' analysis of the smoking problem a step further. "The acquisition of the smoking habit appears to be the result of both social and psychological factors. Psychological factors such as self-esteem, an external focus of control, and lack of self-confidence have been associated with adolescent smoking behavior."(23)

Botvin's Life Skills Training (LST) approach attempted to equip students with skills to resist direct pressures to smoke



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from peers and others, and to decrease students' susceptibility to indirect pressures by helping them develop greater autonomy, self-esteem and self-confidence. The program also helped students cope with anxiety, particularly that brought on by social situations.

The program material included information about smoking, aids to improving self image, communication skills training, assertiveness training and social skills. It also included a component on advertising techniques.

Botvin reported success, but not consistent across [illegible] grades. While the LST program appeared to be effective with eight graders -- where none of the non-smokers reported smoking -- it was least effective among tenth graders.

Botvin moderated his initial success in a subsequent journal article. In a followup study, he found that a year after the initial "treatment" many students who initially had abstained now were smoking, at least experimentally.

"If this trend were to continue it is likely that the experimental group would eventually catch up to the control group in terms of both occasional and regular smoking. Thus, while the LST program appears to have a significant impact on smoking behavior, this impact seems to be one of merely delaying the onset of cigarette smoking rather than preventing it entirely," Botvin wrote.(42)

Thirty-three months after the initial CLASP program, 5.1 percent of the students in the treatment group reported



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weekly smoking while 14.8 percent of those in the control group reported weekly smoking. But researchers could not say conclusively what led to the results. The social environment may have changed, as a result of the program, reducing peer pressure; there may have been a shift in general acceptance of smoking or the skills learned in the program may have produced the change.

Evans and his colleagues reported qualified results after three years of work. The full treatment group showed the lowest percentage of smokers, but the differences were not dramatic.

While these three projects have received the most attention in the academic literature and in the daily press, there are a number of others including the RAY:S project in Berkeley and a long study of smoking behavior in Minneapolis where University of Minnesota researchers found no clear benefit in the use of peer-led discussion groups over adult-led programs.(33)

One of the latest reports is of a school program in Chicago that involved parents. Using techniques and taking some direction from the Evans and Botvin models, the program activities stress peer, family and advertising pressures and have students to evaluate personal needs, values and feelings.

Parents received non-smoking materials, sent home each week with their children, that focused on the dangers of smoking and suggested ways to stop and at least cut down. "It



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was intended that the family and the student programs be mutually reinforcing."(52)

This work concluded that family involvement "appears necessary to affect students' attitudes and, subsequently, their behaviors."

Overall, progress has been slow.

In a review of in-school programs, Evans said "unfortunately the vast majority of such programs are subject to (the) methodological shortcomings ... particularly those related to the adequacy of the research design and the availability of the documentation necessary for even the most rudimentary evaluation."

It appears that in school smoking prevention programs, "the wheel is regularly reinvented, so to speak."

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## WHERE ARE WE NOW?

After 25 years of study, researchers in the area of smoking and health say that the best single predictor of whether a young person will smoke is the answer to the question: "Do you intend to smoke?"

The simplicity of the question, perhaps obvious to any parent of an adolescent, belies the complexity of the issue. While researchers may be able to target the young person who answers "Yes," as "high risk" in the smoking equation, they still don't know why. The factors that go into the smoking question are varied. They affect different people different ways, and all of them are not known. The confusion, and frustration, within the academic and scientific community may be akin to someone tasting a cake for the first time and then attempting to pick through the crumbs to identify the ingredients.

Today, in the United States, we are experiencing the lowest rate of smoking among young people recorded in the last two decades. The youth smoking issue has moved in and out of the national spotlight, largely because of the emotion and politics associated with it, and some claim that the attention devoted to anti-smoking programs developed in the last decade play a part in the decline.



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But to isolate one factor would be to ignore all the evidence that has been produced so far. At the same time that the government has been involved in a major anti-smoking campaign among young people, the nation as a whole has undergone a new awakening on health. In fact, some of the anti-smoking programs are components of much larger health education and awareness programs. Also, public attitudes concerning smoking have changed since the early 1960s when half of adult America smoked. Today, only about a third do.

So why have the trend lines in youth smoking behavior continued to show a decline? No one knows for sure.

Some researchers believe that the trends may be the result of underreporting and misreporting of smoking behavior. The research field is cluttered with surveys of smoking behaviors that are not compatible because of problems of sampling, measurement and reliability. Reports of higher and higher cigarette consumption from the U.S. Department of Agriculture do not jibe with smoking frequency reports from government health agencies. The downward trend may, indeed, have led to false assumptions about youthful smoking.

But within the constraints and limitations of the research, this is what we think we know about youth smoking:

* The anti-smoking campaigns have succeeded to the extent that young people enter the seventh grade believing that smoking is dangerous to their health. But at the time they



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complete that grade, about 20 percent are smoking, at least experimentally.

* More girls smoke than boys, particularly at the experimental and occasional smoker stage, but some suspect that this may be more a reflection of society's acceptance of smoking of women. Girls may not have admitted smoking in the late 1960s when smoking among girls carried social consequences and suggested sexual promiscuity.

* Socioeconomic factors appear to play a role in a young person's use of cigarettes; kids from broken homes, who have lower educational aspirations or who don't fit the "popular" mold in school are more likely to smoke at an early age. But a child's socioeconomic orientation -- if he thinks his future is successful and full of promise -- rather than his humble background may count more heavily in the equation.

* Parental smoking behavior is a factor, but recent research indicates that parental attitudes toward smoking may count for more. In this case works -- prohibitions against smoking -- may count for more than actions.

* The influence of one's peers may support a young smoker who has already taken his first puff, but it does not necessarily initiate the first cigarette. A young person is more likely to find a smoking crowd in which cigarettes may be used as one of several "key symbols" that distinguish the group. It could also be the cut of their clothes, their taste in music, speech or other behavior patterns.



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* The media, once considered a powerful and misleading influence, may be one of the least significant factors. While advertising may shape attitudes, creating an attractive image, it doesn't move children to buy cigarettes.

* The smoking experience is an on-again, off-again experiment. Researchers once believed that four cigarettes was the threshold, which when crossed meant a dependence on cigarettes. Later work indicates that the initiation of smoking may take two years or more before an occasional or experimental smoker becomes a regular smoker.

* While literally hundreds of smoking and health programs are under way in the nation's schools, most lack formal evaluation to determine their effectiveness. Moreover, the in-school campaign to prevent young people from smoking is uncoordinated and sometimes fruitless, merely delaying the onset of smoking.

The 25 years of research have confirmed some commonly held notions about smoking and dashed others. Many more remain to be examined. Meanwhile, the research community is turning more and more toward a holistic approach to smoking prevention. After all, smoking is just one item on an adolescent's agenda. Drugs, use of alcohol, meeting the "right" girl, meeting expectations of parents and peers on any number of issues enter into the smoking equation. Rather than concentrate solely on smoking, some health programs deal with all phases of adolescent development, attempting to help young people over the rough spots of growing up.



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The research is in the early years and there is still much to be done. The influences of peers, parents, and possibly the media, don't compete the dossier of youth smoking. The results are still tentative and some theories about smoking are often supported by more intuition them empirical research.

The family unit remains a strong influence on children despite shifts in the last 10 to 15 years to challenges from outside the home. In fact, much of what is being revealed by the research is what a good conscientious parent would know they are close to their children.

A footnote. The voice of the tobacco industry in the discussion of youth smoking is non-existent. In fact, the misconceptions about the industry's position on smoking, the purpose of cigarette advertising and the general interests of the industry abound. While the research community eschews unfounded fear tactics -- once part of the fare -- discussing the consequences of smoking, the industry is portrayed in frightful ways. The tobacco industry is said to be concerned only about profits, not health, and uses advertising to lure young smokers into a life of dependence on nicotine.

The industry's message that smoking is an adult pursuit and that advertising is designed to persuade smokers to one brand over another, does not reach the average 12-year-old or teenager.



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The holistic smoking and health projects, like the Life Styles Training program developed by Cornell University, is an avenue of possibility for the industry to advance the research at the same time educate young people about smoking. It would at least be a relatively neutral ground from which to open a dialogue and contribute to the continuing study of this issue.

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APPENDIX A

## STORY IDEAS

The following list of story ideas is, for the most part, suited more for the print than the broadcast media. The stories vary in length and some may be combined to form a series on a particular aspect of youth smoking. Some will take more research than others, but almost all of them will require personality and individual experiences to make them readable and interesting. The research literature should be used as a skeleton to be fleshed out with the character and personality of real people.

The report on youth smoking touches on almost all of the subjects mentioned. The few that are not covered in the report -- the Swedish experience, for example -- are reported in the research literature and available for use as background material.

1. ARE SMOKING RATES DECLINING? A review of the methodological problems of accurately recording smoking behavior. The report should include an update of the estimates made in the late 1970s. These estimates indicated a large gap between cigarette consumption as reported by the U.S. Department of Agriculture and cigarette use as reported in national surveys.

2. THE BASHFUL SMOKER. Perhaps a sidebar to number 1. Are adolescents and adults more reluctant today to admit that they smoke? This may be a factor in the underreporting of smoking behavior, but it may also say something about the growing social stigma of smoking. The problem also confounds adolescent smoking research because it appears the "popular" kids in school hide their use of cigarettes.



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3. THE EXPERIMENTAL SMOKER. Early research indicated that young people who smoked at least four cigarettes were hooked for life. Later work indicates that youth smoking is an on-again, off-again affair and young people may experiment with cigarettes for two years or more before they make a decision on regular cigarette smoking. This story might be sidebar to number 4.

4. KEY SYMBOLS. Smoking may be a "key symbol" to many young people. They don't smoke as much for the pleasure or satisfaction or habit of smoking as much as to make a statement about themselves or their group. What does smoking mean these days and what does it represent to those who smoke? What makes it different from other symbols such as dress, language, hot cars or other behavior?

5. THE SMOKING EXPERIENCE. Leventhal and Cleary report that smoking is not an instant act. Smokers make a series of decisions about beginning, maintaining and stopping smoking. What are the stages and what do psychologists say about the act of smoking and the need it fills in individual lives?

6. THE LEGAL AGE. A generic story, but one that may be part of a package on state and local laws on smoking. Teenagers vote and serve in the armed services before they reach the legal age of a majority in some states. What do the state laws say about smoking, who wrote these laws and why were they enacted? Are they enforced? If not, should they be? When was the last time a youngster was prosecuted for illegally buying cigarettes?

7. MERCHANTS. A corollary to above. How closely do merchants watch the sale of cigarettes to minors? Can a child buy cigarettes with impunity? Research indicates that youngsters often get their first cigarettes from a friend. But where do the friends get them? From stores? The laws vary from state to state and punishments must range across the field. Should someone take the trouble to bring sense to this confused situation? Would it make any difference in the youth smoking experience?

8. YOUTH SALES: RESPONSIBILITY. Who is responsible for policing cigarette sales to minors? Does the industry have a responsibility to warn young people of the consequences of violating state and local laws on sales to minors? Is it the responsibility of the merchant? Is anybody doing anything now or are these laws ignored altogether?



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9. TEEN GIRLS: SMOKING MORE? Are teenage girls smoking more than they once did or are they just less reluctant to admit that they smoke? This question confounds the current research in an area of some sensitivity. The University of Michigan Institute of Survey Research may be a good source for this. The ISR's longitudinal study of high school seniors has included reports on smoking behavior as well as attitudinal and political changes among young people. Only one study -- conducted in 1975 by the American Cancer Society -- has looked at this issue in depth. That study concluded rebelliousness among girls was the reason.

10. BOY SMOKERS: ARE THEY DIFFERENT? Years ago, men joked they smoked two kinds of cigarettes when they were kids, corn silks and Camels. Has the attraction of smoking changed among teenage boys? Is smoking still one of the rites of passage? This could be nostalgic piece, but with a message.

11. REGIONAL DIFFERENCES. Smoking rates among young people vary from about 7 percent in the west to nearly 20 percent in the northeast. Why? What makes a teenager in New York City more likely to smoke than a kid from an urban ghetto in Los Angeles? Is it price? Culture? Anti-smoking attitudes?

12. US VS. OTHERS. The rate of youth smoking is reported to be lower in the United States than in other countries. Why? Compare smoking rates, and the youth smoking experience in countries like Italy and Australia where the youth question is a hot issue with youth smoking rates in the U.S. Psychologists may have answers based on the culture, adult smoking behavior or other reasons.

13. RACIAL DIFFERENCES. Very little is written about racial differences and the effect of race on smoking behavior. But what is known suggests some interesting contrasts. A recent California study found, for example, that none of the Oriental children in the sample had smoked yet smoking rates traditionally have been very high in China and Japan. Whites seem to smoke more than blacks, though researchers caution that cultural biases may interfere with accurate reports. Are there others. Again, the national ISR sample of high school seniors may be a starting point.

14. CONTRASTS. The once clear picture of the cigarette smoking youth is clouded by contrasts and contradictions. While young smokers once were described as low in self



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esteem, later work shows no difference with non-smokers. Smokers are called conformists, but non-smokers also may be conformists, only conforming to a different standard. Smokers are said to be socially unsophisticated, awkward and dependent on cigarettes to pull them through when social graces fail. That may no longer be true. Smokers tend to come from lower class homes, but perhaps class orientation is the determining factor. Just who is today's young smoker?

15. PARENTS. What parents say may be more important than what they do. Researchers have largely ignored the influences of parental attitudes and concentrated on parental behavior. Yet, recent research indicates that parents who smoke can influence their children not to smoke. Parents also have the opportunity to shape and define the child's world to effect the smoking decision. This is corollary to the next story.

16. FAMILIES. What do young people expect from their parents today? Besides meeting the needs of survival, are parents doing all they can or should do to help their children today? The emphasis has shifted back to the family unit, after a decade of independent attitudes. Are parents prepared to help when they are needed or are they abrogating their responsibilities to teachers, school counselors or their children's friends and peers?

17. PEER PRESSURE. The old notion of a child being challenged into coughing down his first cigarette by members of a favorite group is about to pass. It is more likely that smoking is just one of many things a group may do to establish its identity. What is the range of peer pressure today, and how does it operate in the smoking decision? Companion piece to number 4.

18. THE FIRST PUFF. The story can be written from the perspective of the scientific research or as a feature with the writer drawing on his own or experiences of others to describe the feelings and emotions of the first cigarette. Research indicates that boys and girls experiment differently with cigarettes. Girls are more likely to be inside, perhaps with a friend, while boys are more likely to be outside, usually with someone else along. Have things changed so much when kids sneaked a cigarette out of the house and carefully lit up behind the tool shed?



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19. BROKEN HOMES. Divorce and broken homes appear to have contributed to smoking. Recent national studies have reported significantly higher teen smoking rates in homes where one or both of the natural parents are missing. Is this a function of the stress placed on young people adapting to a missing parent and what are some of the other manifestations of the problems kids face in broken homes?

20. AGE. Some in the smoking and health community warn that kids are aware of cigarettes and smoking, and trying cigarettes, at earlier ages. The reports are difficult to quantify because survey data is not available for the very young. But psychologists and some researchers may have some ideas and smoking may be just one of the "adult" pursuits that kids are trying at an earlier age. Is this a passing phase or long-term trend?

21. CIGARETTE ADS. The research literature, though woefully incomplete on the subject, appears to conclude that cigarette ads don't encourage kids to smoke. They are instead, messages to people who are already smoking. Even some school children say that ads encourage people to switch but don't lure them to take up use of tobacco. What evidence do critics have that media advertising encourages youth smoking? What are the influences of advertising?

22. MEDIA BANS. DO THEY WORK? The experience in countries where cigarettes advertising is banned shows little effect on cigarette consumption. What is to be gained in this country by imposing a ban on cigarette ads? Should tobacco be singled out or should all products deemed harmful to health be included in a ban? Who writes the list and where do they draw the line?

23. CALIFORNIA GOLD ANYONE? Marijuana has never been advertised but it is a billion dollar business. What does this say about banning of advertising of products considered harmful to health? A sidebar to number 22.

24. SMOKING ON THE SET. How widely used are cigarettes in movies and television? Do writers and directors use cigarettes as props as frequently as 40 years ago when Humphrey Bogart would have been just another pretty face without his fedora, overcoat and dangling cigarette. Do cigarette companies promote the use of cigarettes in the movies the same way auto companies pay to have their hot cars driven by Burt Reynolds?



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25. CENSORSHIP. The tobacco industry has been accused of refusing to advertise in magazines and other publications if articles unfavorable to the industry appear. Is there any truth to the charge? Does editorial content make the difference for the ad agency placing the spot or is it circulation and readership that count the most? Is the industry the culprit or are nervous editors and publishers making decisions without an understanding of the industry's interests?

26. THE SELLING OF A SMOKE. What goes into the production of a cigarette advertising and promotion campaign? Take a recent new entry into the market and document the creation of the campaign, from choosing a name to selecting the models. What are the objectives and who are the creators trying to reach? Particular attention should be paid to adherence of ad agency and company to sampling and advertising code standards. Compare these restrictions to promotion campaigns for other products.

27. SMOKING AND HEALTH PROGRAMS. The nation has a jungle of smoking and health programs. But which ones work? And what kind of messages are they giving to children? Some of the harshest critics of the state of the art are those who have tried to make some sense out of the thousands of efforts underway in our schools. Which ones do the best job and why? Also, what is a measure of success? Is there a risk of introducing cigarettes to kids if anti-smoking programs begin at too early an age?

28. GOVERNMENT SUPPORT. How much money has the government spent on smoking and health programs and research? Is there a good measure of the success or failure of this work? Some critics say many of the in-school programs simply reinvent the wheel. Is that verified in the record? Does anyone monitor the work? Who? How does the expenditures for smoking and health compare with money spent in other health areas -- alcoholism, drug abuse?

29. PROBLEMS OF ADOLESCENTS: EVERYONE'S CONCERN. Why should the programs be limited to smoking and health when smoking is just one of the experiments that go into the growing experience? There are a number of other factors from drinking and drugs to learning to cope with acne. Are any of the industries that are affected by the training participating in the programs, either as financial supporters or program developers? If not, why not? Is there a role for industry and what is it?



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30. NON-SMOKING GENERATION. The Swedes are attempting to raise a non-smoking generation. Is it possible? Track the Swedish anti-smoking program, from the training given expectant mothers to in-school programs. Is this program working and what are the results so far? Can it work in the United States?

31. THE NUMBERS GAME. A 1980 survey for the Federal Trade Commission reported that more education on smoking and health is needed because adults and young people didn't "accurately" report the extent of the hazards of smoking. Who arrived at the estimates used to measure the extent of the smoking health hazard and how did they come up with the estimates of smoking effects on lung cancer, heart disease and other ailments? Where did Daniel Horn come up with the 300,000 figure of smoking fatalities in the 1960s and why is it still used as a measure of the problem today?

32. COMPARE. Compare various reports on the extent of smoking? You can't. Why? Because researchers use a variety of measures, sample composition and methodology. Why isn't there a common measure of smoking after 25 years of research? How can we believe the numbers?

33. BENCHMARK. What do we know now and what do we not know about the smoking experiences of young people? Some of the prominent researchers in the field should be willing to talk about the state of the research, where we've come from and where we're going. Some consider the research to still be in the formative stages, according to the research community's time clock. How much longer, and how many more dollars, will be needed to develop a sufficient body of knowledge from which to make decisions?

34. HISTORY. Cigarette smoking among the young is a valid taboo act and it always has been. Some of the old literature on the cigarette smoking boy paints a frightful picture of youth on the road to ruination and crime. Prof. Harold Hill, in the popular musical "The Music Man," sold a town on the idea of buying a band they couldn't afford images of boys led astray by puffing on a cigarette. How has the youth smoking image figured into American culture and, in large part, helped shape the present-day research? Smoking is an obvious act, but that may say something more than we understood then, now, about how young people think.



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35. DOUBLE STANDARD. Does society set a double standard for teenage boys and girls who smoke? It appears so. Girls are sometimes considerd promiscuous and "fallen angels" is they smoke. Boys, meanwhile, are just doing what boys have always done. How does this difference shape smoking and health programs? How does it figure into the different rates of smoking reported by teenagers? Companion story to number 9, Teenage Girls: Smoking More?

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MARKETING DEVELOPMENT PROPOSAL

(MDD #83-4(III))

Produced by RJRTC (MIDYIRK)

TITLE: YOUNGER ADULT SMOKERS FOCUS GROUPS III

BACKGROUND:

Philip Morris's upward share trend is largely attributable to its strength among younger adult smokers. It has captured 54% of the 18-24 year old market primarily due to Marlboro (36%), Merit (6%) and Virginia Slims (6%). Contrary to this, R. J. Reynolds is underdeveloped in this segment, competing with 24 share point -- mine belonging to SALEM.

In an effort to make inroads into this key area, extensive qualitative testing was conducted in Secaucus, New Jersey, Austin, Texas and Denver, Colorado to better understand younger adult smokers as people, consumers and as smokers. Based on this research, NPI developed specific new brand ideas targeted at this group. This proposal requests the necessary funds to qualitatively test these ideas among consumers.

Additionally, Executive Management has requested that the Project Planning Team pursue more information relating to clove cigarettes. Hence, consumer familiarity and attitudes toward such products will also be explored in these groups.

OBJECTIVES: More specifically, the primary objective of this research is to:

- Evaluate several new brand ideas to determine which ones offer strongest appeal, and to provide direction for further concept refinement.

METHODOLOGY:

Six focus group sessions will be conducted in Long Island, New York on July 11-13. Each group will consist of ten respondents, representing a random selection of brands. Sample composition is as follows:

| Group 1 | Group 2 | Group 3 | Group 4 | Group 5 | Group 6 |
|---|---|---|---|---|---|
| Male College 18-21 | Male H. S. 18-20 | Female College 18-21 | Female H. S. 18-20 | Mixed College 18-21 | Mixed -H. S. College 18-20 |

TIMING/RESPONSIBILITIES:

| | | |
|---|---|---|
| Recruiting | | |
| Moderating | Socrates Nicholas | July 11-13 |
| Topline | MDD | July 18 |
| Final Report | Socrates Nicholas | September 5 |

Produced to Federal Trade Commission pursuant to subpoena dated June 6, 1997.

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COST/BUDGET: (PB Budget)

| | |
|---|---|
| Total $ | $19,620 |
| Facility/Recruiting | $10,120 |
| Moderating/Report | $ 9,000 + $500 |

CONCURRENCE:

| Marketing Development | Initials | Date | Brand Marketing | Initials | Date |
|---|---|---|---|---|---|
| N. S. Kaufman | | | B. G. Dewey | BGD | 6/24 |
| J. D. Weber | | | M. M. Sheridan | MMS | 6/24 |
| R. J. Fackelman | RJF | 6/23 | S. A. MacKinnon | | |

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RJR CONFIDENTIAL

February 17, 1984

Absolutely superb!

TO: A. M. Curry
R. J. Harden
J. D. Weber

FROM: R. C. Nordine

SUBJECT: YOUNGER ADULT WORK SESSION

In Monday's meeting to discuss younger adult smokers, I would like to get your thoughts on the analysis we have been working on. More generally, I am interested in what you think it takes to improve RJR's performance in this group.

I have attached the first draft of our analysis. It is based on a fairly simple approach. First, the historical development of successful younger adult brands is traced to help determine general factors that contributed to that success. These same factors are then considered in today's environment to generate potential strategies we can use to improve RJR's performance among younger adults.

Because of the importance of this subject, we have not tried to avoid controversy -- at least not in the first draft. We would like your input based on previous research you have done, existing plans to address younger adult smokers, and your opinions. We need to identify points that need to be clarified, areas where qualitative research can lend further support, and conclusions we may have overlooked. We would also like to know if you disagree with something. Finally, and most importantly, we want your thoughts on implications -- recommendations on how to improve RJR's performance in this group.

Sorry we were unable to get this to you earlier. Thanks in advance for your help.

Richard C. Nordine
Marketing Development Department

RCN:df

Attachment

cc: E. J. Fackelman
D. S. Burrows

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DRAFT

# STRATEGIC RESEARCH REPORT

February 17, 1984

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YOUNGER ADULT STRATEGIES

AND OPPORTUNITIES

Produced to Federal Trade Commission pursuant to subpoena dated June 6, 1997.

PLAINTIFF'S EXHIBIT 20

By Diane S. Burrows

PUBLISHED BY THE MARKETING DEVELOPMENT DEPARTMENT
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# YOUNGER ADULT STRATEGIES AND OPPORTUNITIES

## INTRODUCTION

RJR's consistent policy is that smoking is a matter of free, informed, adult choice which the Company does not seek to influence. However, in order to plan our business, we must consider the effects those choices may have on the future of the Industry. Furthermore, if we are to compete effectively, we must recognize the imperative to know and meet the wants of those who are 18 and have already elected to smoke, as well as those of older smokers.

### Purpose

This report is intended to provide additional learning on younger adult smokers (aged 18-24) to assist RJR in optimizing its strategic position with respect to this smoker group. While competitive issues, such as Philip Morris' continuing overdevelopment among 18-24 year olds, are a major focus of the analysis, the broader perspective is on the overall business opportunity which may be available to RJR through effective marketing to younger adult smoke

There are five sections:

Section I, "The Importance of Younger Adults," explores the potential benefits/costs of "first brand" or switching strategies directed toward younger adults, in comparison to smokers 25+. Key elements include the impact of "new" 18-year- olds on the market, the effects of aging on both smoker share and market share, and the degree of potential switching opportunity. These analyses are based on share trends from MDD Tracker, loyalty rates and core/fringe development from the 1983 Segment Description Study, NFO switching, and consumption patterns from Tracker and government studies.

Section II, "Successful 'First Brand' Strategies of the Past", uses never-before-available information from the 1983 SDS to trace the succession of key younger adult brands over the past 50 years. This allows an analysis of the key factors which may have been important to their growth and decline, as a potential framework for RJR's present/future younger adult strategies.

Section III summarizes the "Key Learning" which can be concluded from Sections I and II on the importance of younger adult strength and the means which have successfully achieved that strength in the past.

Section IV gives "Implications and Recommendations for RJR" which were derived by applying this learning to today's younger adult market.

Section V, "Key Trend Detail," amplifies on key recommendations from Section IV.

Appendices support the main presentations as referenced in the text.

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## I. THE IMPORTANCE OF YOUNGER ADULTS

Within five years, younger adults (18-24) will drop from 18% to 15% of the total adult population (18+). They will continue to decline in numbers until at least 1995, as the crest of the Baby Bubble pushes farther past age 25.

This shift in the population will cause smokers aged 18-24 to fall from 16% to 14% of all smokers by 1988. Even 13% would not be surprising, since smoking incidence has been declining more rapidly among younger adults than any other age group in recent years (see Appendix A).

Why, then, are younger adult smokers important to RJR?

### 1. VOLUME

Younger adults are the only source of replacement smokers. Repeated government studies (Appendix B) have shown that:

- Less than one-third of smokers (31%) start after age 18.
- Only 9% of smokers start after age 24.

Thus, today's younger adult smoking behavior will largely determine the trend of Industry volume over the next several decades. If younger adults turn away from smoking, the Industry must decline, just as a population which does not give birth will eventually dwindle. In such an environment, a positive RJR sales trend would require disproportionate share gains and/or steep price increases (which could depress volume).

### 2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE

#### A. ANNUAL GAINS FROM THE "NEW" MARKET

"New" 18-year-old smokers in the 1983 market were worth 1.6 points of total smokers.* By capturing half of these, Marlboro gained .8 points of total smokers without needing to attract a single brand switcher. This gain was the equivalent of a successful two-style new brand introduction, with no cannibalization and no development/introductory costs.

As a company, Philip Morris held more than 60% of these 18-year-olds in 1983 versus RJR's 15-20%, yielding PM a .5 point in-going SOM advantage due only to "new" smokers.

* This assumes 18-year-olds are 10% of the 18-24 group rather than a "fair share" of 14% because of population decline and the fact that some smokers start after age 18.



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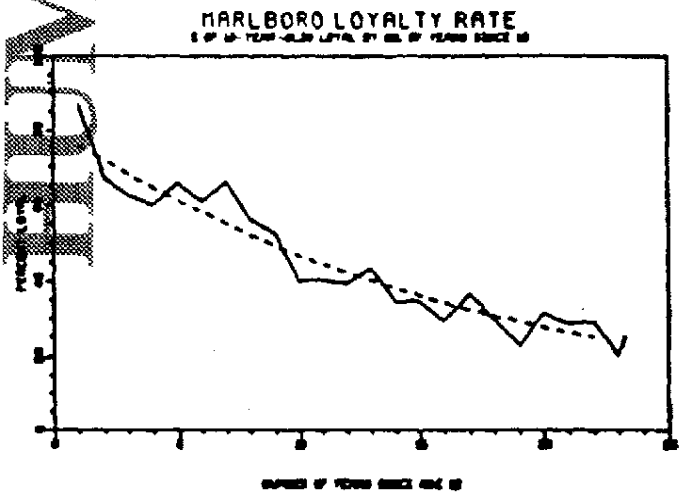
2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE (Cont.)

B. THE COMPETITIVE SQUEEZE

This influx of 18-year-olds causes the pre-existing smoker market to shrink in share value: smokers who were worth 100.0% of the market at the beginning of 1983 were worth only 98.4% by year end. Thus, a brand which had a 10.0% smoker share going into 1983 and did not attract any 18-year-olds would drop to 9.9% even if it kept every member of its franchise. This means that any brand/company which is underdeveloped among 18-year-olds must achieve net switching gains just to break even.

In contrast, a brand which is strong among 18-year-olds can have net switching losses and still hold/gain share. The graph below shows loyalty rates from the 1983 SDS, i.e., the percentage of smokers who smoked Marlboro at age 18 and still do, after one to twenty-plus years. These loyalty rates show that Marlboro loses about 25% of its 18-year-olds by age 20 and another 15% by age 24 -- a total loss of 40% over the six years between ages 18 and 24. Translating this to share points, Marlboro would be expected to lose .3 points of its .8 points of 18-year-olds between ages 18-24. This is, in fact, about the annual total NFO switching loss found for Marlboro in recent years. (See Appendix C.)

However, since Marlboro gained .8 by becoming their "first brand", it can afford the .3 switching loss and still come out .5 points ahead.




C. MOMENTUM FROM AGING

Once a brand becomes well-developed among younger adults, aging and brand loyalty will eventually transmit that strength to older age brackets.

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2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE

C. MOMENTUM FROM AGING (Cont.)

An analysis of Tracker shares from 1979-83 (see Appendix D) shows that, apart from short term fluctuations:

- Incoming 18-year-olds and the movement of its existing franchise into older age brackets can explain all of Marlboro's smoker share gains in the past four years. Among smokers 25+, all of Marlboro's gains are attributable to this aging movement -- switching appears to have had no net long term effect.

  Even if Marlboro makes no further gains among younger adults in the next five years, it is likely to gain at least 3 points of smoker share due to the aging movement of its present smokers (assuming its switching is no worse than in 1980-83). If Marlboro continues to gain share among younger adults at its present rate, its overall smoker share could easily increase by a total of 5 points, from 19% in 1983 to 24% by 1988.

- Newport's growth can also be entirely explained by its younger adult strength and aging. Over the next five years, Newport is likely to gain .8 points of total smokers without any additional growth among younger adults. If its younger adult gains also continue, it could exceed a 4% total smoker share by 1988, a gain of about 1.8 points over 1983.

These examples demonstrate the momentum younger adults give a brand. Although a competitor could slow this momentum by attracting switchers, the "first brand" would hold the high ground of brand loyalty in such a battle.

D. LONG-TERM DIVIDENDS -- RATE PER DAY

Government and RJR studies spanning several decades have shown that smokers increase their consumption as they age. The chart below shows that smokers 25+ consumed 22% more than smokers 18-24 on average during 1980-82.

| AGE | RATE PER DAY (1980-82 AVG.) Cigts. | % Increase Vs. 18-24 | Index vs. Total |
|---|---|---|---|
| 18-24 | 26.2 | | 85 |
| 25-34 | 30.6 | + 17% | 99 |
| 35-49 | 34.1 | + 30% | 110 |
| 50+ | 31.2 | + 19% | 101 |
| Total 25+ | 32.0 | + 22% | 103 |
| TOTAL | 31.0 | + 18% | 100 |

Source: Incidence/Rate Report, Year 1982.

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2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE

D. LONG-TERM DIVIDENDS -- RATE PER DAY (Cont.)

Thus, the 18-year-olds who were worth 1.6 points of smoker share in 1983 were worth only 1.4 points of market share, since their consumption was below average (index of 85). However, by ages 35-49 they will be worth 1.8 points of SOM -- a 30% dividend on their original market share value. This consumption increase is the difference between having smokers 35-49 and having smokers who will age to 35-49.

EXTENDED BRAND LIFE CYCLE

The combination of brand loyalty, aging, and increasing usage tend to provide "life insurance" for brands which skew, or have skewed, younger adult.

For example, we have seen that Marlboro relies heavily on 18-year-olds for its share growth. But if, from 1984 on, no 18-year-olds ever smoked Marlboro again, aging could let Marlboro hold its market share for five more years. The left side of the table below shows Marlboro's current smoker share by age group and what those shares would be in 1988 if Marlboro got no more 18-year-olds and merely moved smokers to older age brackets. On the right side of the table, the smoker shares are translated to market share, by factoring in rate per day. The bottom line shows it is possible Marlboro could even continue to grow without 18-year-olds, but much more slowly than in the past.

| | SMOKER SHARE | | | MARKET SHARE VALUE | | |
|---|---|---|---|---|---|---|
| | 1983 TRACKER | | 1988 PROJECTION | 1983 EST. | | 1988 PROJECTION |
| 18-24 | 41.2 | <—— | 17.6 | 6.7 | <—— | 2.4 |
| 25-34 | 24.7 | | 28.4 | 7.1 | | 8.0 |
| 35-49 | 13.5 | | 18.4 | 4.5 | | 8.4 |
| 50+ | 6.3 | | 7.7 | 2.2 | | 2.5 |
| TOTAL | 18.9 | <—— | 17.8 | *20.5 | | 21.3 |

*Jan.-Nov., 1983 MSA.

Thus, even if a brand falls from favor among younger adults, the younger adults it attracted in earlier years and their increasing consumption can carry the brand's market share for years, significantly extending its overall life cycle.

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3. SWITCHING OPPORTUNITY

Younger adults are more likely to switch brands than any other smoker group, i.e., they are a concentrated switching target. Their very high propensity to also switch styles within their brand suggests the latent potential for even higher rates of brand switching.

| | PROBABILITY OF SWITCHING IN 6 MO. | | | |
|---|---|---|---|---|
| | BRAND FAMILY | | STYLE IN BRAND | |
| | % | INDEX | % | INDEX |
| 18-24 | 16.6% | 126 | 21.5% | 178 |
| 25-34 | 13.4 | 102 | 12.8 | 106 |
| 35-49 | 12.1 | 92 | 10.4 | 86 |
| 50+ | 13.2 | 100 | 11.1 | 92 |
| TOTAL | 13.2 | 100 | 12.1 | 100 |

Source: NFO, 1981-1983 (first half).

Younger adult brand switchers (who then remain loyal) can also contribute the major portion of their aging benefits, including increased usage, to their second brand. Thus, switching by smokers 18-24 can yield a significant part, but not all, of the share advantages associated with a "first brand". Older switchers confer less, or none, of these benefits.

Is this Adimp. strategy

IF Switching so prevalent why so hard to attract. Questions definition of Switching.

STRATEGY To GET Switchers: MAY BE LESS Homogenius GROUP

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## THE IMPORTANCE OF YOUNGER ADULTS

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KEY POINTS

Though decreasing in number, younger adult smokers are a key market for RJR because improved RJR performance among younger adults could contribute more to long term profitability and positive share momentum than could be achieved from gains in other age groups.

Do You Not Need To Do Similar Exercise Among 25-34's To Substantiate.

1. Younger adults are the only source of replacement smokers.

   More than a share point of "new" 18-year-olds enter the market every year. These offer a significant growth opportunity and also shrink the share value of smokers already in the market.

2. A "first brand" strategy has significant share advantages.

   - Optimum ability to capitalize on the influx of new smokers. This gave PM a .5 point ongoing advantage over RJR in 1983.
   - "First brands" compete from the high ground. They do not need switching gains to grow and can afford some switching losses. Brands which rely on older smokers must achieve net switching gains to break even on share.
   - Strength among younger adults will ultimately yield growth in older age brackets. Aging has been contributing all of Marlboro's and Newport's smoker share gains among smokers 25+.
   - Aging of loyal younger adults creates disproportionately large gains in market share, due to their increasing consumption. This does not accrue from gains among older smokers.
   - Younger adult strength, past or present, will tend to extend the lifecycle of a brand.

3. Younger adults offer the most concentrated switching opportunity.

   - Smokers 18-24 are more likely to switch.
   - Switchers aged 18-24 can provide more share advantage from aging/increasing consumption than switchers 25+.

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## II. SUCCESSFUL "FIRST BRAND" STRATEGIES OF THE PAST

In the 1983 Segment Description Study (SDS), smokers of all ages were asked what brand they smoked when they were 18 years old. By using these responses to represent the younger adult market of the past, the rise and fall of key younger adult brands over the last fifty years can be analyzed. By linking these brand trends in time to demographic/social/marketing changes, insights into the factors which affected those brands and might affect a younger adult brand today can be gained.

This section traces every brand which has risen to a 10% or higher share among 18-year-old smokers since the 1930's. There have been only six, but they include the major brands of the last half century -- Pall Mall, WINSTON, Marlboro, Kool, SALEM, and Newport.

### BACKGROUND

Although their rise cannot be traced, Lucky Strike, CAMEL, and Chesterfield were the giants of the cigarette market during the 1930's. SDS respondents who turned 18 in the 1930's seemed to favor Lucky Strike, but no brand skewed young to the degree seen for the brands that would follow.

| 1930's | AVG. SOM | 18-YR-OLD SMOKERS | |
|---|---|---|---|
| | | Share | BDI |
| Lucky Strike | 22% | 32% | 146 |
| CAMEL | 27 | 30 | 111 |
| Chesterfield | 27 | 20 | 74 |
| All Other | 24 | 18 | 75 |

### PALL MALL: THE BRAND OF THE 1940'S AND 1950'S.

The key trend for Pall Mall was younger female smokers, who were rapidly becoming more likely to smoke at age 18. The SDS showed that females rose in importance from 30% of all 18-year-old smokers in the 1930's to 44% in the 1950's. This gain was large enough to create a 6% increase in the number of younger adult smokers between the 30's and 50's, even though there was a 15% decrease in the size of the younger adult population during that time.

Why? What needs met?

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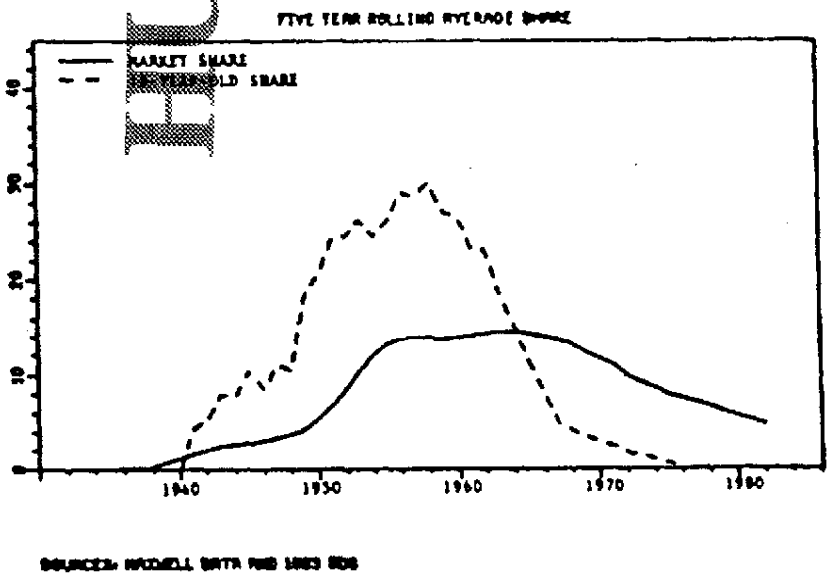
"Extra length" Pall Mall King entered the market in 1937. Initially, it had a prestige positioning, but was soon refocussed to emphasize mildness and "easy" smoking. From the beginning, Pall Mall's development was about twice as high among younger females as males. This captured the rising trend of the younger market and also made good strategic sense for ATC -- Lucky Strike skewed male and Pall Mall skewed female. Thus, Pall Mall was in tune with the demographics of the times and its company's mix.

1956

During the 1940's, Pall Mall's share grew to 10% among all 18-year-olds, to 18% among younger females and was still rising. But since Pall Mall attracted fewer older smokers, its market share was only 3% after a decade (1947). By the 1950's, though, the aging payoff was inevitable: Pall Mall's SOM soared to 15%, with a younger smoker share twice that high.

PALL MALL




SOURCES: MAXWELL SMITH AND SALES BOOK

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But, Pall Mall became out of step with its times when the cancer scares of the mid-1950's created the filter boom. Pall Mall might have defended itself with a filter line extension, but it didn't try until 1965, when it had few younger adult smokers left to defend.

After Pall Mall peaked, its younger adult franchise began to skew male. Younger women -- the rising trend Pall Mall had captured -- moved on. But the brand loyalty and aging benefits of the younger smokers who remained with Pall Mall bolstered its market share for another 10 years.

PALL MALL 18-YEAR-OLD SHARE

| | 1940's | 1950-54 | 1955-59 | 1960-64 | 1965-74 |
|---|---|---|---|---|---|
| Males | 9% | 16% | 30% | 22 | 4 |
| Females | 18 | 40 | 30 | 13 | 2 |
| TOTAL | 10 ——> | 26 ——> | 30 <—— | 19 <—— | 3 |

Source: 1981 SDS

Key Points About Pall Mall:

- Pall Mall's "extra length" was a product breakthrough in its day -- one that promised extra mildness. It caught on right away with younger adult smokers.
- Pall Mall grew quickly among younger adult smokers because it was in tune with the 1940's, when the major trend in smoking was the rising importance of younger females in the market.
- Pall Mall's younger adult strength was a long lead-indicator of its rapid market share growth in the early 1950's.
- Pall Mall's downturn among younger adult smokers was also a lead-indicator of the brand's eventual decline, although its market share held for another decade due to the loyalty and aging of the younger smokers it attracted in earlier years.
- Pall Mall became overdeveloped among males only during its decline.

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WINSTON: THE HIT OF THE 1950'S AND 1960'S.

External influences in the 1950's contributed to the WINSTON opportunity.

1. The rising tide of health concern which peaked with the "cancer scare" of 1954.

Although "modern" filter cigarettes had been in the U.S. market since 1936, their market importance was almost nil until the early 1950's, when Viceroy sales quadrupled in less than two years. Reynolds, determined not to repeat its experience introducing CAVALIER against an already-too-well-entrenched Pall Mall, rushed WINSTON to market in March, 1954, near the crest of the health scare.

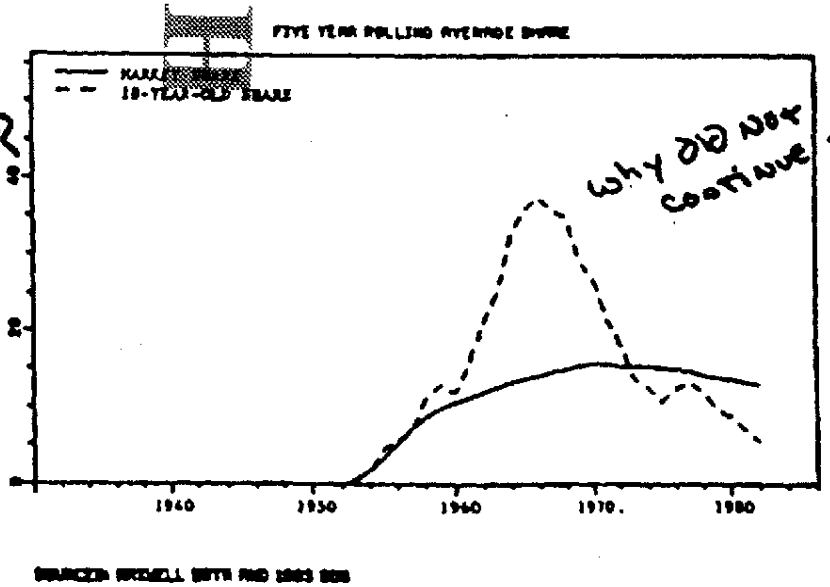
2. The spread of television.

WINSTON was introduced on TV -- a "fad" that spread from 9% of all households in 1950 to 87% by 1960. Advertising dollars were a key advantage for WINSTON over its filter competitors, and the bulk of those dollars were used to leverage TV.

Younger and older smokers alike responded promptly to WINSTON's positive proposition -- "WINSTON Tastes Good" -- its point of difference from other filter brands and the product deficiency non-filter smokers might suspect. WINSTON let Kent and Viceroy sell the benefits of filters.

By 1958, WINSTON was the Number One filter brand and still showing steady market share gains. In the early 1960's, its 18-year-old share reached some 30%, twice as high as its market share. WINSTON's effect on SALEM and Marlboro during the early 1960's (as shown later) suggests that this 30% share was large enough to put peer pressure on WINSTON's side and make it a "bandwagon brand" among younger adult smokers.

WINSTON




Is there a pattern here?

SOURCE: BROWN & WILLIAMSON INTERNAL DOCUMENTS



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WINSTON suddenly lost favor with younger smokers in the mid-1960's. This was not due to any sudden changes in WINSTON or Marlboro ads or products. The ban on television advertising didn't hit until 1970. However, two major shifts in the 1960's environment may have left WINSTON less in touch with younger smokers.

1. The heavy antismoking activity in 1964-69 may have caused problems for WINSTON:

   - WINSTON's positioning and its development were both slightly female, in tune with the younger adult smokers of the 1950's. However, the antismoking publicity in the 1960's had a disproportionate effect on younger females, so it changed the demographic mix. Within only a few years, females fell from 44% to 38% of younger smokers and, for a decade, the rising trend was male. Thus, WINSTON became out-of-tune demographically with the younger market, because external influences had changed the market of the 1960's.

   - The first FTC report, published in 1967, named WINSTON the highest "tar" non-menthol filter in the market -- higher than some non-filter brands and 8 mg. higher than Marlboro. WINSTON's product-centered proposition may have been vulnerable on this front among younger smokers looking for mildness.

   - The intense antismoking campaign on TV may have offset WINSTON's effectiveness in this key medium.

2. WINSTON's light hearted approach may have also become less attuned to the changing younger mindset of the 1960's. In the era of Vietnam, campus riots, and the Chicago Seven, Marlboro's intense, unsmiling cowboy may have fit better.

1965

Come to where the flavor is.
Come to Marlboro Country

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As WINSTON lost its hold on the 18-year-old market of the mid-1960's, its younger smokers dispersed to SALEM and Kool as well as to Marlboro. As with Pall Mall, WINSTON's younger women moved more quickly, leaving WINSTON overdeveloped among younger males for the first time.

WHY?

| | WINSTON 18-YEAR-OLD SHARE | | | | |
|---|---|---|---|---|---|
| | 1956-60 | 1961-65 | 1966-70 | 1971-75 | 1976-80 |
| Males | 12% | 31% | 27% | 16% | 11% |
| Females | 14 | 35 | 32 | 9 | 1 |
| TOTAL | 13 ——→ | 32 | 29 ←—— | 13 ←—— | 5 |

Source: 1983 SDS

When the TV ban took effect in 1970, the TV antismoking campaign also ended and younger females again became the rising trend. But by this time, Marlboro had become the "bandwagon brand".

There was an uptick in WINSTON's share among younger females when its Lights 100's were introduced in 1977, well ahead of their Marlboro counterpart. But, overall, WINSTON's line extensions seem to have had no lasting effect on its younger smoker trend.

Key Points About WINSTON:

- WINSTON benefitted from the health scares of the 1950's, which created the filter boom. It used a positive position -- "WINSTON Tastes Good" -- to capitalize on a negative environment.
- Favorable timing helped WINSTON. It attacked the filter market before earlier filter brands became entrenched.
- Younger smokers were as likely as older ones to be early WINSTON adopters.
- Younger adult strength was a leading indicator of WINSTON's extended market share gains and of its softening.
- Peer pressure --- the "bandwagon effect" -- seems to have worked for WINSTON in the early 1960's, when it had a 30% share of younger smokers.
- WINSTON may have lost popularity among younger smokers because changes in the external environment made WINSTON less in tune with both the demographics and the mindset of the 1960's than it had been in the 1950's.

KEY. TROE? ⇒

- WINSTON did not become overdeveloped among males until after its younger smoker share had begun to decline.
- WINSTON's line extensions do not appear to have had any long term effect on its younger smoker performance, although WINSTON Lights 100's caused a temporary rise until Marlboro responded.

STOP

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MARLBORO: THE "BABY BUBBLE" BRAND

The leading edge of the Baby Bubble exploded on society as the younger adults of the 1960's. Over 30 was "out" and the younger set was driving fashions, politics, and the marketplace, sometimes violently. And Marlboro would become their brand.

Marlboro had been quickly repositioned in 1954-55 to catch the filter boom. But, as a second entry in the "taste/flavor" filter market, with no point of difference but its box, it trailed WINSTON among both younger and older smokers.

| 1955-60 | Market Share | 18-Year-Old Share |
|---|---|---|
| WINSTON | 9% | 11% |
| Marlboro | 4 | 3 |

Judging by its copy, Marlboro's masculine positioning was originally directed at the nonfilter market which had become overdeveloped among males as it declined. It took seven years of experimentation for Marlboro's permanent "cowboy" campaign to fall in place in 1962. Even then, the WINSTON "bandwagon" held Marlboro at bay.

But Marlboro, through happenstance or design, fit better and better as the pressures of the 1960's evolved.

- Marlboro was a milder product than WINSTON.
- Marlboro was positioned male during the only decade since 1930 when males were the growth sector among younger smokers.
- Marlboro's intensity fit the mindset of younger people in the 1960's.
- Marlboro targeted younger than WINSTON* and, by the late 1960's, younger meant the Baby Bubble, the largest cohort of people, and smokers, in history.

explain why =>

* One way to see this is by comparing the percentage of Marlboro versus WINSTON smokers who had already started smoking at age 18. For example, among white male WINSTON smokers who turned 18 in 1955-70, 70% smoked by age 18; for Marlboro, that percentage was 87%. (Source: 1983 SDS)

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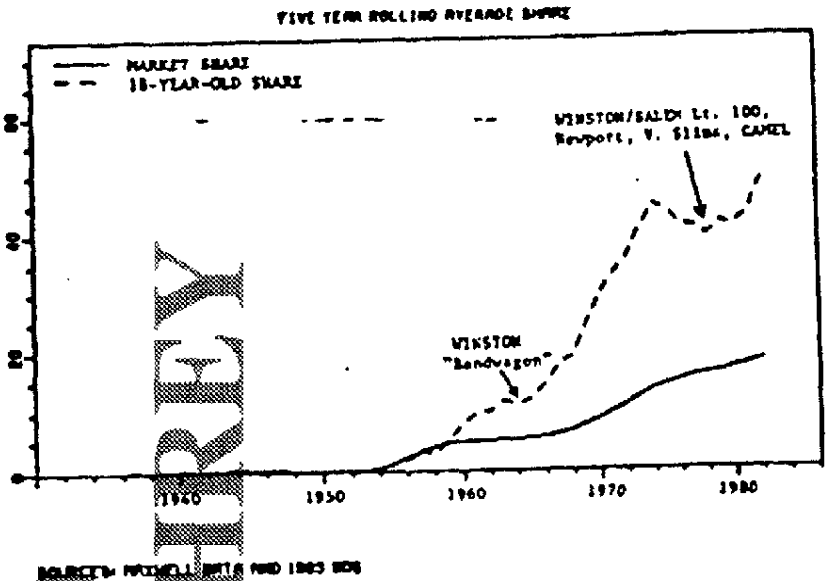
# MARLBORO




Despite Marlboro's masculine positioning, it appears to have been a dual sex brand among younger adults from the beginning. Marlboro skewed male to the same extent the total younger market did, but was almost equally developed among younger males/females until after 1975.

| | SHARE AMONG 18-YEAR-OLD SMOKERS | | |
|---|---|---|---|
| | | Development Index | |
| Marlboro | Total | Male | Female |
| 1955-65 | 8.5% | 101 | 98 |
| 1965-74 | 31.8 | 104 | 94 |
| 1975-79 | 40.6 | 107 | 94 |
| 1978-83 | 50.3 | 116 | 84 |

Source: 1983 SDS

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Positioning
How Stated
How Changed

After 1975, Marlboro not only started to skew male, it started to lose its grip on the 18-year-old market:

- Marlboro's 18-year-old smoker share dipped in 1976-77 when both SALEM and WINSTON brought out Lights 100's styles and Marlboro failed to respond until 1978. This may partly account for Marlboro's increasing male skew in the late 1970's and, perhaps, for Marlboro Lights 100's switching gains versus WINSTON and SALEM in the 1980's.

Did 18yrolds Really Switch to Light 100's ⇒

- Newport began to nibble at Marlboro's "first brand" territory. Newport was a brand Marlboro was ill-equipped to compete against, because of its long-standing menthol weakness. This could be a reason for the strong emphasis on Marlboro Menthol in late 1982.

- CAMEL and Virginia Slims each took a bite.

These inroads on Marlboro's younger smoker stronghold in the late 1970's barely showed in the brand's market share because aging momentum from the 1950's and 1960's covered its tracks. But these may have been signals that Marlboro was becoming less in-sync with younger smokers over time.

- Males were not the growth sector of the younger market in the 1970's. Females were rebounding from 38% importance in the 1960's to 49% of all 18-year-old smokers by the end of the 1970's.

| | % IMPORTANCE AMONG 18-YEAR-OLD SMOKERS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1950's | | 1960's | | 1970's | | 1980-83 | |
| Males | 55 | ——→ | 62 | ←—— | 53 | | 51 | |
| Females | 44 | ←—— | 38 | ——→ | 47 | | 49 | |

Source: 1983 SDS

- In the 1983 SDS, younger males clearly still cared about being seen as masculine -- they don't want feminine imagery! Marlboro's 18-24 smokers also want masculinity, because the majority of the brand's smokers are male. But, Marlboro's younger male smokers do not stress masculinity any more than other younger males. In fact, younger males who smoke other brands are somewhat more likely to want the rugged, traditional masculinity.

Why smoke Newport? ⇒

Thus, the evidence of share trend, demographics, and wants tends to suggest that Marlboro's positioning may have become less in tune with the younger market during the late 1970's and 1980's.

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Once Pall Mall and WINSTON had turned down among younger smokers, there was no return. How, then, has Marlboro managed to hold, even recoup, among 18-year-olds in the 1980's?

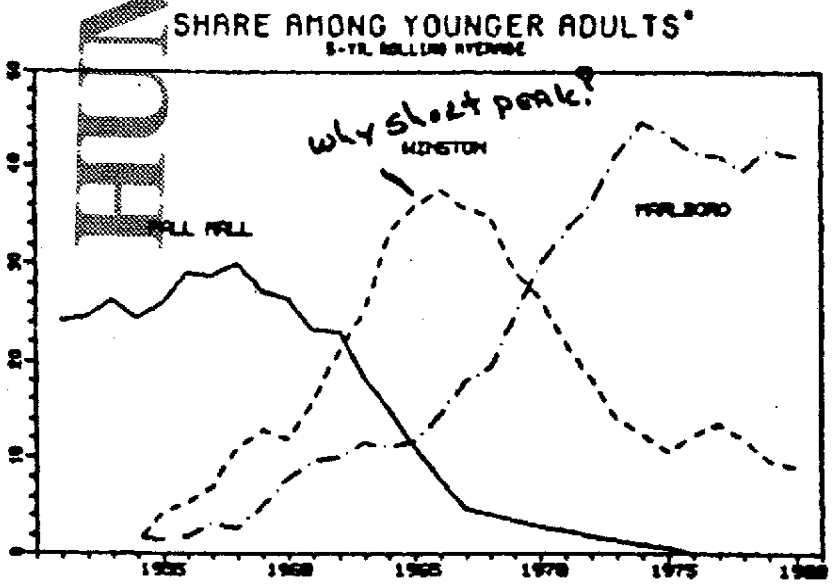
1. In the 1983 SDS, we found that younger smokers were much more likely than other smokers to base their brand perceptions on the people they see using the brand -- more than its advertising, package, or name. Thus, Marlboro's very size among younger smokers may give it an effective positioning that has nothing to do with the cowboy, which is the positioning of its advertising. Marlboro's younger smokers are their own campaign, automatically in tune with the times.

2. The SDS showed that Marlboro's key imagery was not masculinity, it was peer identity -- the brand for average younger adults, popular and acceptable among younger adult friends, not "too different".

3. Marlboro is clearly seen as a quality product, even by younger smokers who prefer other brands. Marlboro smokers want to "buy the best" and they think that Marlboro is the best.

4. Marlboro has the "bandwagon effect" still going for it. In fact, the trend over the decades has been for younger adult smokers to increasingly cluster behind one big "first brand", a trend that parallels the increasing pressures against smoking during these times. This would mean that as social pressures tend to isolate younger smokers from their nonsmoking peers, they have an increased need to identify with their smoking peers, to smoke the "belonging" brand.

Good Point




* 18-YEAR-OLD SMOKERS, 1983 SEGMENT DESCRIPTION STUDY

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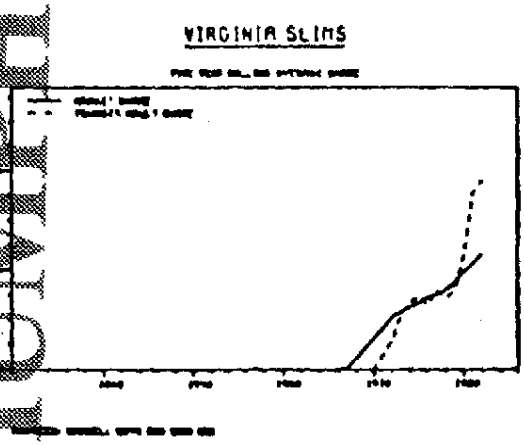
Philip Morris may itself recognize Marlboro's vulnerability. Certainly the brand's switching losses among 18-24 year olds have been visible in the 1980's, averaging the equivalent of .3 share points of total smokers every year. Wile Marlboro could not be repositioned after 20 years of the same campaign, some clues suggest PM may be using other strategies to protect Marlboro's contribution to their younger adult share strength:

- Virginia Slims and Merit have been gaining disproportionate switching from Marlboro among smokers 18-24, allowing Philip Morris to keep 32% of Marlboro's net switching losses from 1980 to 1983 within the corporate fold -- nearly twice PM's fair share (See Appendix H). This suggests that Marlboro might serve PM as a "feeder brand", capturing younger smokers who can then be channeled to other PM brands.

- Virginia Slims' performance as an 18-year-old "first brand" has improved markedly in recent years. This may relate to its softer approach in marketing recently (See Appendix I) which is more consistent with the younger Marlboro female's desire to not be "too bold".




- The Merit repositioning seems to draw it closer to Marlboro, perhaps shortening the supply lines.

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Explain M's success with positioning discussion not numbers?

Key Points About Marlboro

1960's
- Marlboro succeeded with a "first brand" strategy targeted to the leading edge of the Baby Bubble, who turned 18 in the 1960's.
- Younger smokers have been a clear leading indicator of Marlboro's market share growth.
- Marlboro was only a second entry in the taste/flavor filter market until it developed its image-intensive long term campaign/positioning. This took eight years of trial and error.
- Marlboro's final positioning, set in 1962, was in tune with the mindset of the 1960's and also with the demographic shifts among younger smokers, since younger females dipped in importance during that decade.
- The WINSTON "bandwagon" held Marlboro down in the early/mid-1960's.
- Marlboro's lighter, milder product may have given it an edge over WINSTON among younger smokers.
- Despite Marlboro's masculine positioning, it was almost equally developed among younger males and females until after 1975.

1970-
- Marlboro's younger smoker share softened in the late 1970's, but it had built enough aging momentum that its SOM trend slowed only slightly.
- Certain evidence suggests that Marlboro's positioning has become less in tune with younger smokers than it was in the 1960's.
  - Younger females, not males, have been the growing sector among younger smokers. Marlboro has been losing strength among females.
  - Younger Marlboro males' interest in masculine imagery is no stronger than the average younger male.
- Marlboro is a "bandwagon brand" today.
  - Marlboro users provide the brand's imagery today more than its advertising does.
  - Marlboro stands for "the average young adult." Peer popularity is its added benefit.
  - Marlboro smokers believe in its high quality.
- Younger smokers' need for "belonging" is strong and may be increasing due to social pressures against smoking. Marlboro provides a means of belonging.
- Marlboro suffers high switching between ages 18-24, but Philip Morris retains about twice its fair share of those switchers, via Virginia Slims and Merit.

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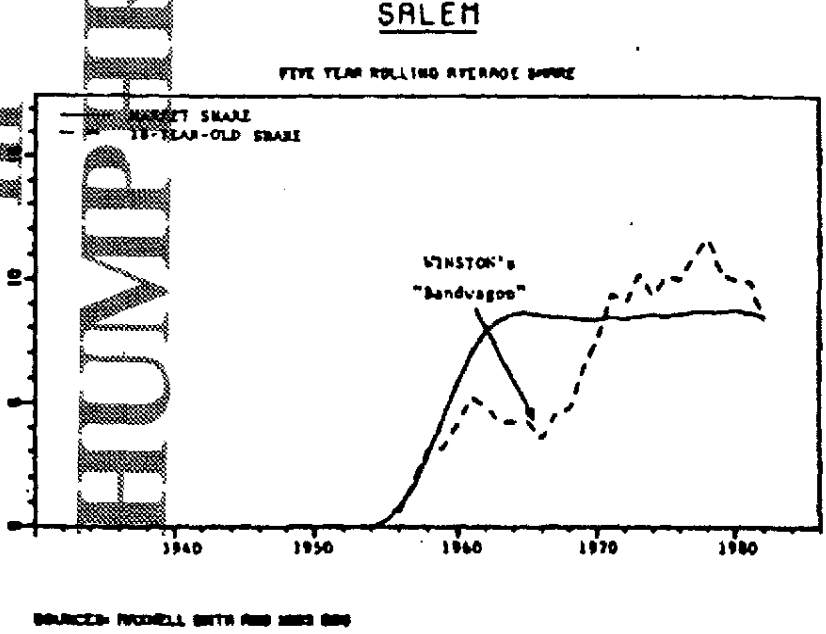
SALEM/Kool/Newport

SALEM

SALEM's product breakthrough was "light menthol". Kool nonfilter had been in market since 1931, but it was advertised more like a cold remedy than a cigarette and, apparently, tasted like it. When SALEM lowered the menthol and added a filter, it cut an 8% niche in the market.

At first, younger smokers adopted SALEM as readily as older ones but, in the early 1960's, its 18-year-old share went flat. It appears that this had more to do with WINSTON than either SALEM or Kool -- the WINSTON "bandwagon effect" was drawing 18-year-olds like a magnet. When WINSTON let go in the late 1960's, SALEM could again attract its fair share of younger smokers.

Although SALEM became stronger among younger smokers of the 1970's, it never became a true "first brand". A fair share of younger smokers, though, is enough to keep market share steady for a long time.




Kool

The key trend for Kool was the emerging importance of younger Black smokers in the market. In the health-concerned 1960's, younger Blacks didn't back off from smoking to the extent that whites did. Because of this, their importance surged from 6% of 18-year-old smokers in the 1950's to 10% in the 1960's.

Younger Blacks of the 1930's to 1950's had basically gone with whatever brand was big among younger white smokers (See Appendix F). In the 1960's, they

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began to coalesce behind Kool, which only had a 2% share among younger whites. It was time for Blacks to build their own brand in the 1960's, the heyday of Martin Luther King and "Black pride".

Kool apparently capitalized on this aspect of the 1960's by simply advertising to Blacks before its competitors did. Kool ads were in Ebony consistently from at least 1962, when our records start. This was easy for Kool, since a penguin campaign fits either race, and it was effective. By the early 1970's, Kool had a 56% share among younger Blacks -- it was the Black Marlboro.

Positioning may not have been a factor.

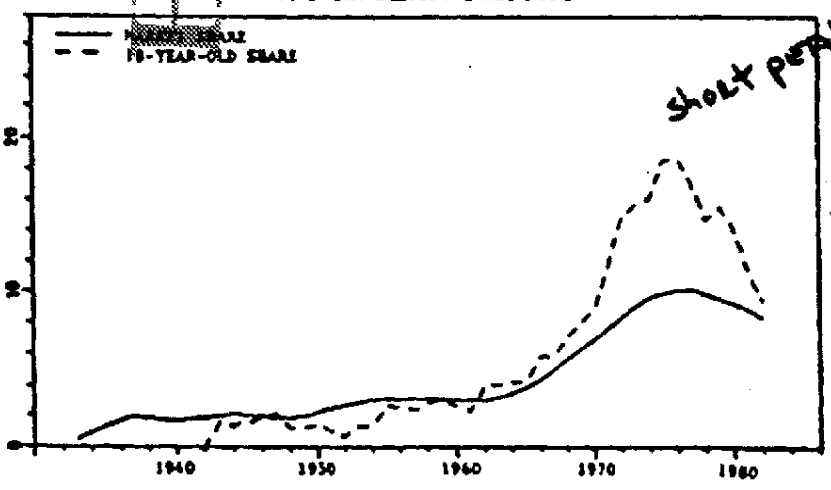
KOOL SHARE AMONG 18-YEAR-OLD SMOKERS

| | 1950's | 1960-64 | 1965-69 | 1970-74 | 1975-79 | 1978-83 |
|---|---|---|---|---|---|---|
| Black | 10% | 12% | 17% | 56% | 44% | 34% |
| White | 1 | 2 | 4 | 11 | 11 | 5 |
| TOTAL | 2 | 3 | 6 | 14 | 15 | 8 |

Source: 1983 SDS

Like Marlboro, Kool capitalized on the shifts in the 1960's market. And, by the 1970's it was falling out of step with the trends of the times -- younger whites were returning to smoking, leaving Kool with a 500 BDI in a sector whose importance was no longer booming. Kool was in a bind in the Black market, too, with no TV reinforcement for its penguin campaign and SALEM suddenly spending about as much as Kool against Blacks. (See Appendix G). Kool was vulnerable and Newport capitalized on that vulnerability.

KOOL




short peak, why?

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Newport

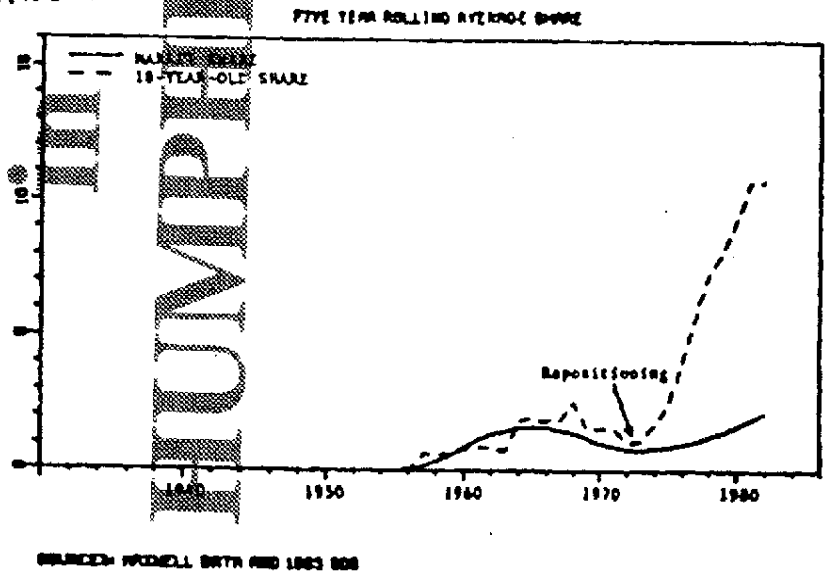
Newport was completely redone between 1970-73 -- campaign, product, package. When the "new" Newport went to market in 1973, it went only against the Northeastern U.S., which had been a focal point of Black population growth throughout the sixties as Blacks left the south.

Newport was the first menthol to emphasize imagery but, on the bottom line, Newport went after Kool with dollars. From 1973-79, Newport's total ad spending was only about 30% of Kool's, but it was concentrated in some 20% of the U.S. Half of Newport's budget was in out-of-home. By 1978, Newport's regional spending against Blacks equalled Kool's national Black market spending. Newport had picked Kool's prime market, with a size it could afford, and essentially bought it. The results among younger smokers, especially younger Blacks, were immediate.

WHAT WAS IT?

BUT SO HAD SALEM, SO WHY WORKED.

SALEM'S DOING NOW, WHY NOT NEWPORT WORKING.

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In the 1980's, Newport started rolling out across the South Atlantic, where migration patterns of the 1970's showed Blacks had been returning. Tracker data during this rollout period tend to confirm that Newport gained among younger Whites as it gained distribution, but its fundamental growth has been due to younger Blacks.

NEWPORT MENTHOL SHARE OF SMOKERS

| | 1980 | 1981 | 1st Half 1982 | 2nd Half 1982 | 1st Half 1983 |
|---|---|---|---|---|---|
| AGES 18-24 | | | | | |
| Black | 18.6% | 22.4% | 25.2% | 28.9% | 36.6% |
| White | 4.4 | 4.9 | 5.5 | 5.0 | 4.9 |
| TOTAL | 6.1 | 7.0 | 7.5 | 7.6 | 8.5 |

Source: 1983 SDS

The 1983 SDS results indicate that Newport has become the alternate younger adult identity brand for those who don't want to just follow the crowd. For Blacks, it's today's alternative to Kool; for Whites, it's an alternative to Marlboro.

Why? WHAT'S Attracting Them? Positioning?

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Key Points About SALEM/Kool/Newport

SALEM

- In its early years, SALEM's appeal to younger adults was overshadowed by WINSTON.
- SALEM gained among younger smokers of the 1970's, especially Blacks, by spending more effectively against Kool, but never has become a true younger adult "first brand".

Kool

- Kool's growth, much like Marlboro's, hinged on demographic shifts caused by the antismoking 1960's.
- Kool was in tune with the rising importance of younger Blacks in the 1960's and the mindset of "Black identity". why
- Kool gained "Black identity" by advertising to Blacks before its competitor.
- When younger Whites returned to the market of the 1970's, Kool was suddenly too Black to fit the younger market and became vulnerable.

Newport

- Newport, when it was repositioned, essentially bought Kool's prime North Atlantic market by intense spending in out-of-home and against Blacks.
- It appears that Newport has gained younger White smokers by gaining distribution but its fundamental growth is among Blacks.
- Newport is the alternative younger adult brand -- for Blacks an alternative to Kool, for Whites an alternative to Marlboro. It's for those who don't want to follow the crowd.

Why worked for Newport + Not Salem?

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How 25+ Switchers Differ From Stayers? Is There An Opportunity With Their Projected Growth.

## III. KEY LEARNING: SUMMARY & CONCLUSIONS

The previous two sections have discussed the importance of a strong position in the younger adult market and the strategies/circumstances which have, in the past, allowed brands/companies to achieve growth among younger adults. By integrating the key points from these sections, several conclusions can be reached.

### 1. THE IMPORTANCE OF YOUNGER ADULTS

- Strength among younger adult smokers is critical to generating sustained growth momentum for brands/companies.
  - New 18-year-old smokers represent about 1.4 share points of incremental volume each year.
  - A younger adult smoker who has been gained and retained appreciates in value over time because of increased consumption. Older smokers do not.
- The biggest cigarette brands of the last half centruy have derived their strength from high younger adult development -- Pall Mall, WINSTON, Marlboro, and Kool. Newport may be another such brand, but its size is limited by distribution.

  In each case,
  - Younger adult gains have been a long term leading indicator of the brand's market share gains. Typically, major market share growth has lagged the brand's younger smoker growth by at least five years.
  - Continuing loss of younger adult strength has also been a leading indicator of market share softness and decline, although aging may bolster the brand's SOM for a decade or more.
- Major performance gains can be made among younger adult smokers with very little effect on short term total market share. This means that competition may be slow to notice an improvement of RJR performance among younger adults and, therefore, may be slow to react.
  - A "first brand" strategy (which is necessarily younger adult) provides an opportunity for unique long term benefits. However, it is likely that at least two to three years of close tracking would be required to determine the success of a "first brand" effort. Short term gains could be significant but are more likely to be minimal.
  - Younger adults provide the most concentrated switching opportunity in the market. While a switching strategy is inherently less cost effective, it may be more feasible and may also be more likely to produce short term share results.

Why not worked before? ⇒

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- Younger adult smokers have been as likely or more likely than older smokers to be early adopters of brands which have ultimately succeeded as younger adult "first brands" over the last 50 years.

- Patterns observed for WINSTON suggest that a "bandwagon effect" may accrue to a "first brand" which achieves an 18-year-old share near the 30% level. When WINSTON's share reached this level, younger smoker growth was curtailed on both SALEM and Marlboro, until WINSTON's share again fell below that level.

## II. SUCCESSFUL YOUNGER ADULT STRATEGIES OF THE PAST

The successful younger adult brands of the past have used strategies with many similar themes. In nearly every case, these brands have capitalized on:

1. External Factors
2. Growth Sectors Within Younger Adults
3. Out-of-Touch Competitors
4. Positive Communications of Product Wants

### A. External Factors

- Past periods of intense publicity on the health issue appear to have played a key role in the succession of the major younger adult "first brands."
  - WINSTON capitalized on opportunities presented by the filter boom, which gained momentum from the "health scare" environment of the early 1950's.
  - Marlboro capitalized on the changing mix of males/females among younger smokers in the 1960's, which arose from their different reactions to the intense health publicity of that time.
  - Kool capitalized on the similar shift between Blacks/Whites in the 1960's.

### Growth Sectors Within Younger Adults

- Younger adult "first brands" have capitalized on subtle demographic shifts within the younger smoker market. Their "formula for success" appears to have been to target the FUTURE profile of younger smokers, i.e., to be better developed among sex/race/geographic groups which are gaining importance to an extent that reflects the group's rate of growth.
  - Pall Mall was strongly developed among younger females during the decades when their importance was increasing most rapidly.

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- WINSTON was introduced when female importance was modestly increasing and was slightly better developed among females, but essentially a balanced brand.

- Marlboro was slightly better developed among males during the 1960's, when female importance dipped, but was essentially a balanced brand until after 1975.

- Kool was highly developed among Blacks and grew when their importance surged in the 1960's.

- Newport targeted Blacks in the Northeastern U.S., where the Black population was growing most rapidly in the 1970's, and has moved to the south, following the return migration.

- The dominant trend in the younger smoker market over the last 50 years has been the rising importance of younger females. Because of this, the major "first brands" have been overdeveloped among males only during their periods of decline. Marlboro has become overdeveloped among younger males only after 1975, when its share was softening among younger smokers.

- One key to Marlboro's success in capturing the Baby Bubble appears to be that it attracted younger smokers than WINSTON, within the younger smoker market.

C. Out-Of-Touch Competitors

In every case, the softening/decline of the major younger adult brands seems linked to an inability to "stay in tune with the times" as well as a new competitor can "start in tune with the times" at its introduction. The real criteria for being "in tune" are most probably the mesh between imagery and/or product and the wants of younger smokers of the times. However, demographics appear to be a useful tool for identifying the likelihood of that mesh.

- Pall Mall became out of touch with younger smokers' product wants when it failed to effectively react to the filter boom of the 1950's. WINSTON fit those wants.

- WINSTON was the victim of subtle shifts which may have been transparent or seemed transitory at the time.

  - WINSTON's light-hearted campaign fit well with the mindset of the 1950's, but did not fit as well with the rising tide of intense young rebels as Marlboro did in the 1960's.

  - WINSTON's campaign had a slightly female slant and so did its franchise. In the 1960's, younger females were losing importance and younger males were gaining -- a better fit for Marlboro.

  - WINSTON's product may have become somewhat strong versus 1960's tastes (and "tar" publicity).

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- Kool found itself "too Black" in the 1970's as younger whites were rapidly regaining market importance.

- Marlboro's advertising/positioning seems to have become less in touch with the demographic trends within younger smokers of the late 1970's and 1980's and, perhaps, their mindset.

  - Younger females were the key growth sector in the 1970's and 1980's.

  - Today, Marlboro's younger male smokers do not have an above average interest in masculine imagery versus all younger males.

  - Phillip Morris may have recognized Marlboro as vulnerable. Marlboro's disproportionate switching losses to Virginia Slims and Merit tend to feed Marlboro's losses back to PM. The campaign changes on these brands may shorten the lines of supply.

D. Positive Communication of Product Wants

- Throughout the succession of "first brands" younger adults smokers have moved to "milder" products.

  - Pall Mall promised "mildness" based on its length.

  - WINSTON, as a filter product, would be seen as milder than nonfilters.

  - In the 1960's, Marlboro was "milder", i.e., significantly lower in tar, than WINSTON, as was advertised by the FTC.

  - Kool and SALEM could be seen as milder because of their menthol.

  - Newport is perceived as milder than Kool.

- Successful "first brands" have used positive product messages.

  - WINSTON "Tastes Good" despite its filter.

  - Pall Mall emphasized milder smoking "pleasure".

  - Newport speaks to smoking "pleasure".

- By omission, no brand whose product messages remind the consumer of product negatives has succeeded as a younger adult first brand, for example, any brand which has specifically advertised "low tar" (which implies remaining tar).

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## IV. IMPLICATIONS/RECOMMENDATIONS FOR RJR

1. Younger adult smokers are citicial to RJR's long term performance and profitability. Therefore, RJR should make a substantial long term commitment of manpower and money dedicated to younger adult programs.

2. RJR should seek to understand and capitalize on the market conditions/approaches which have successfully created younger adult strength for brands/companies in the past.

### A. External Factors

- SOCIAL ACCEPTABILITY (Detail in Section V)

  A breakthrough product which effectively addresses social acceptability concerns could revolutionize the market as WINSTON did in the health-concerned 1950's. The ultimate size of this opportunity will depend on younger adult acceptance. Thus, RJR should consider:

  - Developing a social acceptability product whose smoking benefits are adequate versus younger adult wants.
  - Planning a second entry social acceptability brand which emphasizes mainstream younger adult imagery and product positives, avoiding connotations of "social concern".

- PRICING (Detail in Section V)

  Pricing is a key issue in the industry and younger adults appear to be price responsive. To maximize the possible pricing opportunity among younger adults, several alternatives should be considered:

  - A price/value brand with a conspicuous second "hook" of quality/imagery/taste could maximize opportunity by reducing possible conflict between younger adults' value wants and imagery wants.
  - There may be an opportunity for RJR to capture younger adult brand loyalty through extended periods of pack promotion in closely targeted outlets, e.g., campus convenience, military. This would be an investment program.
  - Since younger adults with above-average interest in value are concentrated in the Coolness segment, there may be an opportunity for SALEM to capitalize on price.

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B. Growth Sectors Among Younger Adults

- RJR should make resources available to develop/improve its capabilities to identify and track demographics, values/wants, and brand performance within the younger adult smoker population. These tools will be critical to the development and implementation of effective programs among younger adults.

- Younger adult Hispanics and Blacks should be key RJR targets, since they are gaining importance in the younger smoker market. (Detail in Section V)

  - Resources/manpower should be made available to increase understanding of the dynamics/wants within these markets.

  - Heavy-up advertising in selected media are likely to be beneficial against younger Blacks, based on Newport/Kool loyalty.

  - Competitive advantage could accrue from these special market programs, since Philip Morris has intensified its Black/Hispanic marketing efforts.

- "Upward striving" needs have been identified as key among younger adults. This imagery need is likely to grow, since younger adults who follow the Baby Bubble are likely to experience limited opportunities for traditional success. They may aspire/relate to entrepreneurial means of "moving up" such as fame/success via the performing arts. This may provide a new brand or repositioning opportunity.

C. Out-Of-Touch Competitors

Marlboro has become too strongly male to fully capitalize on the female growth sector among younger smokers. It's masculine imagery also appears to be less of a "hook" for the brand in the 1980's. However, Marlboro's users themselves provide the brand a strong positioning as an identity/belonging brand. Since Marlboro is not likely to be preemptable on belonging, indirect strategies hold more promise at present.

- Marlboro smokers are half of the younger market and, thus, encompass a diversity of wants. This implies that a successful attack on any key sector of the younger adult market is likely to hurt Marlboro. Thus, a total market perspective is recommended as lending broader creative options.

- Virginia Slims and Merit should be high priority competitive targets, since they appear to play a key role in defending Philip Morris against Marlboro's traditionally high switching losses.

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- VANTAGE may have an opportunity to compete more effectively for younger adult Marlboro switchers, based on its established pattern of switching gains from Marlboro.

D. Positive Communication of Product Wants

History suggests that younger adults are attracted to messages of product "mildness" and "smoking pleasure". To optimize its performance versus younger adult product wants, RJR should obtain information to clarify whether these descriptors relate to specific positive product attributes, to the absences of specific negatives (e.g. hot/harsh), or are potentially beneficial copy strategies.

COME TO WHERE the FLAVOR IS?

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# RJR CONFIDENTIAL

February 17, 1984

EARLY MARLBORO BEST HELP NEW BRAND.

TO: A. M. Curry
[redacted]

FROM: R. C. Nordine

SUBJECT: YOUNGER ADULT WORK SESSION

In Monday's meeting to discuss younger adult smokers, I would like to get your thoughts on the analysis we have been working on. More generally, I am interested in what you think it takes to improve RJR's performance in this group.

I have attached the first draft of our analysis. It is based on a fairly simple approach. First the historical development of successful younger adult brands is traced to help determine general factors that contributed to that success. These same factors are then considered in today's environment to generate potential strategies we can use to improve RJR's performance among younger adults.

Because of the importance of this subject, we have not tried to avoid controversy -- at least not in the first draft. We would like your input based on previous research you have done, existing plans to address younger adult smokers, and your opinions. We need to identify points that need to be clarified, areas where qualitative research can lend further support, and conclusions we may have overlooked. We would also like to know if you disagree with something. Finally, and most importantly, we want your thoughts on implications -- recommendations on how to improve RJR's performance in this group.

Sorry we were unable to get this to you earlier. Thanks in advance for your help.

Richard C. Nordine
Marketing Development Department

RCN:df

Attachment

cc: E. J. Fackelman
D. S. Burrows

Inpt. OF Ads Before

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RJR-IRTC
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February 28, 1984

TO: L. W. Hall, Jr.

FROM: R. C. Nordine

SUBJECT: YOUNGER ADULT SMOKER ANALYSIS

Attached is Diane Burrows' analysis of younger adult smokers. We have incorporated the changes you suggested and have also used Tom Pucker's input.

In many ways, I think [illegible] to view this subject as something special. It is part of the foundation on which successful [illegible] strategies are built.

[illegible] needed. My point is a longer term effort to solve the problem. This is not [illegible] translation. [illegible] Decision's priorities or to [illegible] terms low.

We need a concentrated, multi-disciplined effort from our best people to develop the needed understanding of younger adult smokers, to recommend a plan of attack, and to establish proper criteria to evaluate the success of strategies after they have been implemented. Quick-fix solutions will not solve the problem and in fact are likely to be counterproductive.

[illegible] copy to be provided if you want one for Mr. Long.

R. C. Nordine
Marketing Development Department

Attachments

cc: E. J. Packelman
D. S. Burrows

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February 28, 1984

TO: L. W. Hall, Jr.

FROM: R. C. Nordine

SUBJECT: YOUNGER ADULT SMOKER ANALYSIS

Attached is Diane Burrows' analysis of younger adult smokers. We have incorporated the changes you suggested and have also used Tom Rucker's input.

In many ways, I think we need to view this subject as something special. Like Brand Family Positioning, it is part of the foundation on which successful long term strategies are built.

Perhaps the last thing we want is over-reaction to the short term. We should not radically adjust the 1984 Plan ending up with all of our new/established brands zeroed-in on younger adult smokers and giving us a false sense that the problem is being addressed.

What is needed in my opinion is a longer term effort to solve the problem. This is not likely to be achieved within the constraints of the present organization. After all, younger adult smokers have been high in the Company's priorities for ten or more years. Yet, our performance is at a ten-year low.

We need a concentrated, full-time effort from our best people to develop the needed understanding of younger adult smokers to recommend a plan of attack, and to establish proper criteria to evaluate the success of strategies after they have been implemented. "Quick fix" solutions will not solve the problem and in fact are likely to be counterproductive.

An additional copy is provided if you want one for Mr. Long.

Richard C. Nordine
Marketing Development Department

Attachments

cc: E. J. Fackelman
D. S. Burrows

Brown & Williamson Tobacco Corporation
Bates No. Hpa
Hpa

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# MDD ABSTRACT FORM

| | |
|---|---|
| | PROJECT NUMBER None |
| TITLE: Younger Adult Smokers: Strategies and Opportunities | |
| AUTHOR: Diane S. Burrows | |
| DATE STARTED: --- | DATE COMPLETED: 2/29/84 |
| TYPE OF RESEARCH: Strategic | SECTION MANAGER: R. C. Nordine |

ABSTRACT:

Younger adult smokers are shown to be critical to long term brand/company growth in the past, present, and future. Younger adult performance of the six major brands of the last half century was analyzed to identify four common strategies/circumstances leading to their younger adult strength. They capitalized on:

1. Changes in external factors.
2. Growth sectors among younger adult smokers.
3. Out-of-touch competitors.
4. Product aptness, communicated positively.

Key recommendations include:

1. Establishment of a separate younger adult smoker program/unit, with customized procedures/measures, improved information resources, and a less competitor-centered focus.

2. Attention to Blacks, Hispanics, females, social acceptability, pricing, and potential enhancement of product acceptability.

KEY WORDS

| | | |
|---|---|---|
| Younger Adult Smokers | Kool | Hispanics |
| Pall Mall | SALEM | Women |
| WINSTON | Newport | Social Acceptability |
| Marlboro | Blacks | Pricing |

Signature

2/29/84
Date

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# STRATEGIC RESEARCH REPORT

February 29, 1984

TO: Mr. G. H. Long
Mr. M. L. Orlovsky
Mr. H. O. Lees

FROM: Diane S. Burrows

YOUNGER ADULT SMOKERS:

STRATEGIES AND OPPORTUNITIES

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Mr. D. F. Pearson

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YOUNGER ADULT SMOKERS:

STRATEGIES AND OPPORTUNITIES

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YOUNGER ADULT SMOKERS:

STRATEGIES AND OPPORTUNITIES

## MANAGEMENT SUMMARY

PURPOSE

This is intended to assist RJR in optimizing its strategic position with respect to younger adult smokers (18-24) by clarifying their importance versus smokers 25+, identifying strategies which have been most effective against younger adult smokers in the past, and applying this learning to RJR and its current environment.

This summary provides a broad overview of the most critical points and key ideas in the report. However, it was necessary to omit many important points in order to be brief, and readers are encouraged to read the entire document.

THE IMPORTANCE OF YOUNGER ADULT SMOKERS

Younger adult smokers have been the critical factor in the growth and decline of every major brand and company over the last 50 years. They will continue to be just as important to brands/companies in the future for two simple reasons:

- The renewal of the market stems almost entirely from 18-year-old smokers. No more than 5% of smokers start after age 24.
- The brand loyalty of 18-year-old smokers far outweighs any tendency to switch with age.

Thus, the annual influx of 18-year-old smokers provides an effortless momentum to successful "first brands".* Marlboro grows by about .8 share points per year due to 18-year-old smokers alone.

On the other hand, brands/companies which fail to attract their fair share of younger adult smokers face an uphill battle. They must achieve net switching gains every year to merely hold share. By not attracting its fair share of 18-year-old smokers, RJR yielded a .5 point ingoing share advantage to PM in 1983.

Marlboro and Newport, the only true younger adult growth brands in the market, have no need for switching gains. All of their volume growth can be traced to younger adult smokers and the movement of the 18-year-olds which they have previously attracted into older age brackets, where they pay a consumption dividend of up to 30%. A strategy which appealed to older smokers would not pay this dividend.

* i.e., those which appeal to 18-year-old smokers rather than switchers ages 19-24.



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In every sense, companies with strong younger adult brands hold the high ground, standing above the increasingly difficult and costly battle for switchers. Today, only Philip Morris and Lorillard are growing among younger adult smokers; RJR is losing about a point per year among this group.

## SUCCESSFUL YOUNGER ADULT BRAND STRATEGIES OF THE PAST

A review of the five key brands in the last half century -- Pall Mall, WINSTON, Marlboro, Kool, and Newport -- shows that each built considerable strength among younger adult smokers well ahead of its upsurge in market share. Their strategies succeeded almost invisibly, hidden from competitors in the critical but low-volume younger adult smoker market.

The positionings of these brands have all been very different, but there have been important similarities in the strategies they followed. While chance may have played a role in these past successes, the analysis indicates that the key elements can be understood and purposefully leveraged if sufficient time, priority, and resources are invested.

- All of these brands took advantage of changes in the external environment that worked against or were ignored by their predecessor. The external changes included smoking and health during the 1950's, the generation gap in the 1960's, and racial pride in the late 1960's-70's. These factors affected the mix of the younger adult smoker market as well as its mindset.

- All of the brands capitalized on demographic shifts within the younger adult smoker market. Females were gaining importance when Pall Mall and WINSTON took off. Marlboro made its inroads during the 1960's, the only decade when younger adult male smokers surged in importance. The emergence of younger adult Black smokers has been pivotal to Kool and Newport. These brands succeeded by keying on the growth sectors without boxing themselves in, e.g., Marlboro was as well developed among females as males until recent years.

- In every case, the major younger adult brands have been succeeded by a brand which was positioned to be different from its predecessor and better "in touch" with the younger adult smokers of the time. Me-too strategies have never worked.

- All of these successful brands have stressed positive product messages (as opposed to problem/solution) and have provided milder/smoother product delivery than their predecessor.



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IMPLICATIONS/RECOMMENDATIONS FOR RJR

1. Younger adult smokers are critical to RJR's long term performance and profitability. Therefore, RJR should make a substantial long term commitment of manpower and money dedicated to younger adult smoker programs. An unusually strong commitment from Executive Management will be necessary, since major volume payoffs may lag several years behind the implementation of a successful younger adult smoker strategy.

This time lag can also magnify the penalties for wrong turns in the development and implementation of younger adult smoker programs. To prevent such problems:

- RJR should develop objectives, planning procedures, and marketability criteria for younger adult brands/programs which reflect their unique, long term character. These may differ significantly from the approaches/measures which are appropriate to established brands or to new brands addressing older smokers by, for example, emphasizing consumer-based rather than volume-based action standards.

- RJR should make resources available to develop/improve its capabilities to thoroughly identify and track demographics, values, wants, media effectiveness, and brand performance within sectors of the younger adult smoker population. These tools will be critical to the development and implementation of effective programs addressing younger adult smokers.

Because of the sensitivity of the younger adult smoker market, brand development/management should encompass all aspects of the marketing mix and maintain a long term, single-minded focus to all elements -- product, advertising, name, packaging, media, promotion, and distribution. Tactics which could negatively affect the integrity of the strategy should be avoided.

2. RJR should seek to better understand and capitalize on the factors/strategies which have succeeded for younger adult brands of the past. Since RJR's processes/tools have been better attuned to switching efforts than to "first brand" strategies, time and learning will clearly be required to fully assess the opportunities available through these avenues.

It should be noted that the new/established brand programs in the 1984 Plan already address the major issues/trends identified below, within the framework of current knowledge/processes. These Plans should continue as a basis for RJR's 1984 marketing efforts, but should be enhanced by a full-time dedication of resources to ensure a solution to the problem.

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- External factors of key interest are social acceptability, which could revolutionize the future market, and pricing, which has been critical in 1983. Both will require careful understanding and execution to reach younger adult smokers.

- The key demographic growth sectors among younger adult smokers are Blacks, Hispanics, and females. In terms of wants, the desire to "move up in the world" is likely to become even more intense, but expressed in more entrepreneurial ways. Based on history, these opportunities could be realized by brands with a balanced younger adult base as well as, perhaps, narrowly targeted ones.

- The key out-of-touch competitor is Marlboro, which now relies more on younger adult identity/belonging generated by its own users, rather than on the "masculinity" of its advertising. Marlboro is too broad (half the younger adult smoker market) to be addressed as a single competitor and should be attacked by a variety of younger-adult-centered rather than competitor-centered strategies. RJR should emphasize innovative points of difference from existing brands in attacking the younger adult smoker market, using head-on/imitative efforts primarily as defensive measures.

  Philip Morris may have recognized Marlboro's vulnerability and be using it as a "feeder brand" for Virginia Slims and Merit. This increases these brands' importance as competitive targets.

  Among RJR established brands, VANTAGE has the best switching performance versus Marlboro and may be able to maintain/enhance that performance.

- Product wants of younger adult smokers, especially mild/smooth/less harsh delivery, should be fully understood, reflected in action standards for RJR's younger adult targeted products, and communicated with positive copy.

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# YOUNGER ADULT SMOKERS: STRATEGIES AND OPPORTUNITIES

## INTRODUCTION

RJR's consistent policy is that smoking is a matter of free, informed, adult choice which the Company does not seek to influence. However, in order to plan our business, we must consider the effects those choices may have on the future of the Industry. Furthermore, if we are to compete effectively, we must recognize the imperative to know and meet the wants of those who are 18 and have already elected to smoke, as well as those of older smokers.

### Purpose

This report is intended to provide additional learning on younger adult smokers (aged 18-24) to assist RJR in optimizing its strategic position with respect to this smoker group. While competitive issues, such as Philip Morris' continuing overdevelopment among 18-24 year olds, are a major focus of the analysis, the broader perspective is on the overall business opportunity which may be available to RJR through effective marketing to younger adult adult smokers.

There are five sections:

Section I, "The Importance of Younger Adult Smokers," explores the potential benefits/costs of "first brand"* or switching strategies directed toward younger adult smokers, in comparison to smokers 25+. Key elements include the impact of 18-year-old smokers on the market, the effects of aging on both smoker share and market share, and the degree of potential switching opportunity. These analyses are based on share trends from MDD Tracker, loyalty rates from the 1983 Segment Description Study (SDS), NFO switching, and consumption patterns from Tracker and government studies.

Section II, "Successful 'First Brand' Strategies of the Past," uses never-before-available information from the 1983 SDS to trace the succession of key younger adult brands over the past 50 years. This allows an analysis of the key factors which may have been important to their growth and decline, as a potential framework for RJR's present/future younger adult smoker strategies.

Section III summarizes the "Key Learning" which can be concluded from Sections I and II on the importance of younger adult strength and the means which have successfully achieved that strength in the past.

Section IV gives "Implications and Recommendations for RJR" which were derived by applying this learning to today's younger adult smoker market.

Section V, "Key Trend Detail," amplifies key recommendations from Section IV.

Appendices support the main presentation as referenced in the text.

* "First Brand" strategies appeal to 18-year-old smokers rather than switchers ages 19-24.

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I. IMPORTANCE

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SECTION I

THE
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## I. THE IMPORTANCE OF YOUNGER ADULT SMOKERS

Within five years, younger adults (18-24) will drop from 18% to 15% of the total adult population (18+). They will continue to decline in numbers until at least 1995, as the crest of the Baby Bubble pushes farther past age 25.

This shift in the population will cause smokers aged 18-24 to fall from 16% to 14% of all smokers by 1988. Even 13% would not be surprising, since smoking incidence has been declining more rapidly among younger adults than any other age group in recent years (see Appendix A).

Why, then, are younger adult smokers important to RJR?

### 1. VOLUME

Younger adult smokers are the only source of replacement smokers. Repeated government studies (Appendix B) have shown that:

- Less than one-third of smokers (31%) start after age 18.
- Only 5% of smokers start after age 24.

Thus, today's younger adult smoking behavior will largely determine the trend of Industry volume over the next several decades. If younger adults turn away from smoking, the Industry must decline, just as a population which does not give birth will eventually dwindle. In such an environment, a positive RJR sales trend would require disproportionate share gains and/or steep price increases (which could depress volume).

### 2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE

#### A. ANNUAL GAINS FROM THE "NEW" MARKET

The 18-year-old smokers in the 1983 market were worth about 1.6 share of total smokers. By capturing half of these 18-year-old smokers, Marlboro gained .8 points of total smokers without needing to attract a single brand switcher. This gain was the equivalent of a successful two-style new brand introduction, with no cannibalization and no development/introductory costs.



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Furthermore, entering 18-year-old smokers account for all of Marlboro's strength among total 18-24. Loyalty rates from the 1983 SDS (i.e., the percentage of smokers who smoked Marlboro at age 18 and still do) show that Marlboro loses about 28% of its 18-year-olds by age 20 and another 14% by age 24 -- a total loss of 42% over the six years between ages 18 and 24. Translating this to share points, Marlboro would be expected to lose .3 points of its .8 points of 18-year-olds before they reach age 24. This is, in fact, about the annual total NFO switching loss found for Marlboro in recent years. (See Appendix C.) But, since Marlboro gained .8 by becoming their "first brand" at age 18, it can afford the .3 switching loss and still come out .5 points ahead.

B. THE COMPETITIVE SQUEEZE

This steady influx of 18-year-old smokers causes the pre-existing smoker market to shrink in share value: smokers who were worth 100.0% of the market at the beginning of 1983 were worth only 98.4% by year end. Thus, a brand which had a 10.0% smoker share going into 1983 and did not attract any 18-year-old smokers would drop to 9.8% even if it kept every member of its franchise. This means that any brand/company which is underdeveloped among 18-year-olds must achieve net switching gains just to break even.

As a company, Philip Morris held more than 60% of these 18-year-old smokers in 1983 versus RJR's 15-20%, yielding PM a .5 point in-going SOM advantage in 1983 due only to "new" smokers. The power of this advantage can be seen by the fact that RJR's total competitive switching gains have been twice as large as PM's during 1980-83 yet, during the same period, RJR has lost smoker share while PM has made significant gains (See Appendix D). Furthermore, PM's younger adult smoker advantage has been increasing dramatically:

| | SHARE OF SMOKERS 18-24 | | | | | AVERAGE ANNUAL CHANGE |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | |
| RJR | 26.1 | 25.0 | 24.3 | 23.5 | 21.3 | - 1.2 |
| PM | 44.8 | 48.8 | 51.5 | 54.0 | 58.4 | + 3.4 |

Source: MDD Tracker

C. MOMENTUM FROM AGING

Once a brand becomes well-developed among younger adult smokers, aging and brand loyalty will eventually transmit that strength to older age brackets.



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C. MOMENTUM FROM AGING

An analysis of Tracker shares from 1979-83 (see Appendix E) shows that, apart from short term fluctuations:

- Incoming 18-year-old smokers and the movement of its existing franchise into older age brackets can explain all of Marlboro's smoker share gains in the past four years. Among smokers 25+, all of Marlboro's gains are attributable to this aging movement -- switching appears to have had no net long term effect.

If Marlboro merely holds its share among younger adult smokers in the next five years, it is likely to gain at least 3 points of smoker share due to the aging movement of its present smokers (assuming its switching is no worse than in 1980-83). If Marlboro continues to gain share among younger adult smokers at its present rate, its overall smoker share could easily increase by a total of 5 points, from 19% in 1983 to 24% by 1988.

- Newport's growth can also be entirely explained by its younger adult strength and aging. Over the next five years, Newport is likely to gain 1.5 points of total smokers without any additional growth among younger adults. If its younger adult gains also continue, it could exceed a 4% total smoker share by 1988, a gain of about 1.5 points over 1983.

These examples demonstrate the momentum younger adult smokers give a brand. Although a competitor could slow this momentum by attracting switchers, the "first brand" would hold the high ground of brand loyalty in such a battle.

D. LONG-TERM DIVIDENDS -- RATE PER DAY

Government and RJR studies spanning several decades have shown that smokers increase their consumption as they age. The chart below shows that smokers 25+ consumed 22% more than smokers 18-24 on average during 1980-82.

| | RATE PER DAY (1980-82 AVG.) | | |
|---|---|---|---|
| AGE | Cigts. | % Increase Vs. 18-24 | Index vs. Total |
| 18-24 | 26.2 | | 85 |
| 25-34 | 30.6 | + 17% | 99 |
| 35-49 | 34.1 | + 30% | 110 |
| 50+ | 31.2 | + 19% | 101 |
| Total 25+ | 32.0 | + 22% | 103 |
| TOTAL | 31.0 | + 18% | 100 |

Source: Incidence/Rate Report, Year 1982.



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## 2. MARKET SHARE -- THE "FIRST BRAND" ADVANTAGE

D. LONG-TERM DIVIDENDS -- RATE PER DAY (Cont.)

Thus, the 18-year-olds who were worth 1.6 points of smoker share in 1983 were worth only 1.4 points of market share, since their consumption was below average (index of 85). However, by ages 35-49 they will be worth 1.8 points of SOM -- a 30% dividend on their original market share value. This consumption increase is the difference between having smokers 35-49 and having smokers who will age to 35-49.

E. EXTENDED BRAND LIFE CYCLE

The combination of brand loyalty, aging, and increasing usage tends to provide "life insurance" for brands which skew, or have skewed, younger adult.

For example, Marlboro relies heavily on 18-year-olds for its share growth. But if, from 1984 on, no 18-year-olds ever smoked Marlboro again, aging would let Marlboro almost hold its market share through 1990. The left side of the table below shows the contribution each age group makes to Marlboro's current smoker share and what that contribution would be in 1990 if Marlboro got no more 18-year-olds and merely moved its franchise smokers to older age brackets. On the right side of the table, the smoker share contributions are translated to market share, by factoring in rate per day differences. The bottom line shows that, even after seven years without 18 year-olds, aging could allow Marlboro's market share to hold within one point of its 1983 level.

| | SMOKER SHARE CONTRIBUTION | | | MARKET SHARE CONTRIBUTION | | |
|---|---|---|---|---|---|---|
| | 1983 TRACKER | | 1990 PROJECTION | 1983 EST. | | 1990 PROJECTION |
| 18-24 | 6.8 | <—— | 0.0 | 6.6 | <—— | 0.0 |
| 25-34 | 6.5 | | 6.8 | 6.8 | | 7.2 |
| 35-49 | 3.8 | | 7.9 | 4.6 | | 9.6 |
| 50+ | 1.8 | | 2.2 | 2.1 | | 2.5 |
| TOTAL | 18.9 | <—— | 16.9 | *20.2 | | 19.3 |

*Jan.-Dec., 1983 MSA.

Thus, even if a brand falls from favor among younger adult smokers, the younger adults it attracted in earlier years and their increasing consumption can carry the brand's market share for years, significantly extending its overall life cycle.



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3. SWITCHING OPPORTUNITY

Younger adults are more likely to switch brands than any other smoker group, i.e., they are a concentrated switching target. Their very high propensity to also switch styles within their brand suggests the latent potential for even higher rates of brand switching.

| | PROBABILITY OF SWITCHING IN 6 MO. | | | |
|---|---|---|---|---|
| | BRAND FAMILY | | STYLE IN BRAND | |
| | % | INDEX | % | INDEX |
| 18-24 | 16.6% | 126 | 21.5% | 178 |
| 25-34 | 13.4 | 102 | 12.8 | 106 |
| 35-49 | 12.1 | 92 | 10.4 | 86 |
| 50+ | 13.2 | 100 | 11.1 | 92 |
| TOTAL | 13.2 | 100 | 12.1 | 100 |

Source: MRO, 1981-1983 (first half).

Younger adults brand switchers (who then remain loyal) can also contribute the major portion of their aging benefits, including increased usage, to their second brand. Thus, switching by smokers 18-24 can yield a significant part, but not all, of the share advantages associated with a "first brand". Older switchers confer less, or none, of these benefits.



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## THE IMPORTANCE OF YOUNGER ADULT SMOKERS

### SUMMARY

Though decreasing in number, younger adult smokers are a key market for RJR because improved RJR performance among younger adult smokers could contribute more to long term profitability and positive share momentum than could be achieved from gains in any other age group.

1. Younger adult smokers are the only source of replacement smokers.

More than a share point of 18-year-old smokers enter the market every year. These offer a significant growth opportunity and also shrink the share value of smokers already in the market.

2. A "first brand" strategy has significant share advantages.

- Optimum ability to capitalize on the influx of 18-year-old smokers. This gave PM a .5 point in-going advantage over RJR in 1983.
- "First brands" compete from the high ground. They do not need switching gains to grow and can afford some switching losses. Brands which rely on older smokers must achieve net switching gains to break even on share.
- Strength among younger adult smokers will ultimately yield growth in older age brackets. Aging has been contributing all of Marlboro's and Newport's smoker share gains among smokers 25+.
- Aging of loyal younger adult smokers creates disproportionately large gains in market share due to their increasing consumption. This does not accrue from gains among older smokers.
- Younger adult strength, past or present, will tend to extend the lifecycle of a brand.

3. Younger adult smokers offer the most concentrated switching opportunity.

- Smokers 18-24 are more likely to switch.
- Switchers aged 18-24 can provide more share advantage from aging/ increasing consumption than switchers 25+.



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SECTION II

SUCCESSFUL
"FIRST BRAND"
STRATEGIES
OF
THE
PAST

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## II. SUCCESSFUL "FIRST BRAND" STRATEGIES OF THE PAST

In the 1983 Segment Description Study (SDS), smokers of all ages were asked what brand they smoked when they were 18 years old. By using these responses to represent the younger adult market of the past, the rise and fall of key younger adult brands over the last fifty years can be analyzed. By linking these brand trends in time to demographic/social/marketing changes, insights into the factors which affected those brands and might affect a younger adult brand today can be gained.

This section traces every brand which has risen to a 10% or higher share among 18-year-old smokers since the 1930's. There have been only six, but they include the major brands of the last half century -- Pall Mall, WINSTON, Marlboro, Kool, SALEM, and Newport.

### BACKGROUND

Although their rise cannot be traced, Lucky Strike, CAMEL, and Chesterfield were the giants of the cigarette market during the 1930's. Smokers who turned 18 in the 1930's seemed to favor Lucky Strike, but no brand skewed younger adult to the degree seen for the brands that would follow.

| 1930's | AVG. SOM | 18-YR-OLD SMOKERS | |
|---|---|---|---|
| | | Share | BDI |
| Lucky Strike | 22% | 32% | 146 |
| CAMEL | 27 | 30 | 111 |
| Chesterfield | 27 | 20 | 74 |
| All Other | 24 | 18 | 75 |

### PALL MALL: THE BRAND OF THE 1940'S AND 1950'S.

The key trend for Pall Mall was younger adult female smokers, who were rapidly becoming more likely to smoke at age 18. The SDS showed that females rose in importance from 30% of all 18-year-old smokers in the 1930's to 44% in the 1950's. This gain was large enough to create a 6% increase in the number of younger adult smokers between the 30's and 50's, even though there was a 15% decrease in the size of the younger adult population during that time.



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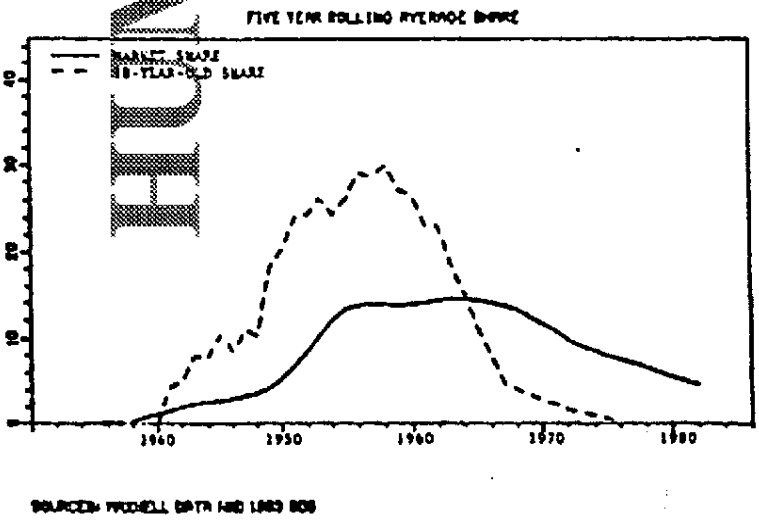
"Extra length" Pall Mall King entered the market in 1937. Initially, it had a prestige positioning, but was soon refocussed to emphasize mildness and "easy" smoking. From the beginning, Pall Mall's development was about twice as high among younger adult females as males. This captured the rising trend of the younger adult smoker market and also made good strategic sense for ATC -- Lucky Strike skewed male and Pall Mall skewed female. Thus, Pall Mall was in tune with the demographics of the times and its company's mix.

1956

During the 1940's, Pall Mall's share grew to 10% among all 18-year-old smokers, to 18% among younger adult female smokers, and was still rising. But since Pall Mall attracted fewer older smokers, its market share was only 3% after a decade (1947). By the 1950's, though, the aging payoff was inevitable: Pall Mall's SOM soared to 15%, with a younger adult smoker share twice that high.

PALL MALL




SOURCES: PRODELL DATA AND LORD BOS

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But, Pall Mall became out of step with its times when the cancer scares of the mid-1950's created the filter boom. Pall Mall might have defended itself with a filter line extension, but it didn't try until 1965, when it had few younger adult smokers left to defend.

After Pall Mall peaked, its younger adult franchise began to skew male. Younger adult female smokers -- the rising trend Pall Mall had captured -- moved on. But the brand loyalty and aging benefits of the younger adult smokers who remained with Pall Mall bolstered its market share for another 10 years.

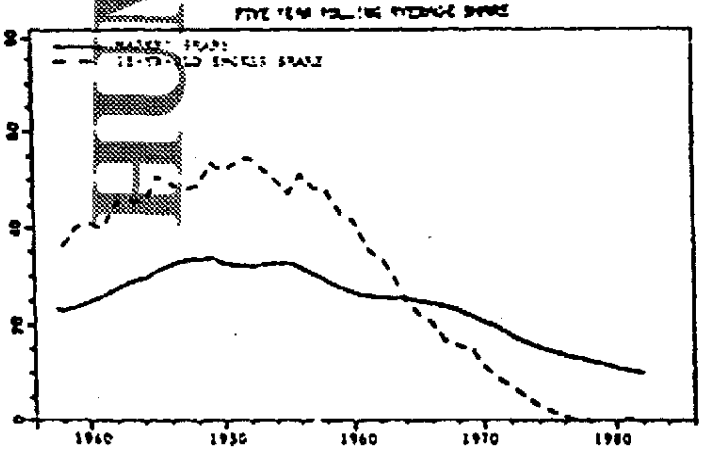
PALL MALL SHARE AMONG 18-YEAR-OLD SMOKERS

| | 1940's | 1950-54 | 1955-59 | 1960-64 | 1965-74 |
|---|---|---|---|---|---|
| Males | 9% | 16% | 30% | 22 | 4 |
| Females | 18 | 40 | 30 | 13 | 2 |
| TOTAL | 10 ⟶ | 26 ⟶ | 30 ⟵ | 19 ⟵ | 3 |

Source: 1983 SDS

ATC's leading position among younger adult smokers, first with Lucky Strike and then Pall Mall, pushed it to #1 in the industry in 1940, when it passed RJR. However, while Pall Mall was ATC's last successful younger adult entry, the brand's downturn signalled the future performance of ATC as a company.

AMERICAN TOBACCO

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Key Points About Pall Mall:

- Pall Mall's "extra length" was a product breakthrough in its day -- one that promised extra mildness. It caught on right away with younger adult smokers.
- Pall Mall grew quickly among younger adult smokers because it was in tune with the 1940's, when the major trend in smoking was the rising importance of younger adult female smokers in the market.
- Pall Mall's younger adult strength was a long lead-indicator of its rapid market share growth in the early 1950's.
- Pall Mall's downturn among younger adult smokers was also a lead-indicator of the brand's eventual decline, although its market share held for another decade due to the loyalty and aging of the younger adult smokers it attracted in earlier years.
- Pall Mall became overdeveloped among males only during its decline.
- Since Pall Mall was ATC's last major younger adult brand, its downturn was a leading indicator of ATC's decline.

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WINSTON: THE HIT OF THE 1950'S AND 1960'S.

External influences in the 1950's contributed to the WINSTON opportunity.

1. The rising tide of health concern which peaked with the "cancer scare" of 1954.

   Although "modern" filter cigarettes had been in the U.S. market since 1936, their market importance was almost nil until the early 1950's, when Viceroy sales quadrupled in less than two years. Reynolds, determined not to repeat its experience introducing CAVALIER against an already-too-well-entrenched Pall Mall, rushed WINSTON to market in March, 1954, near the crest of the health scare.

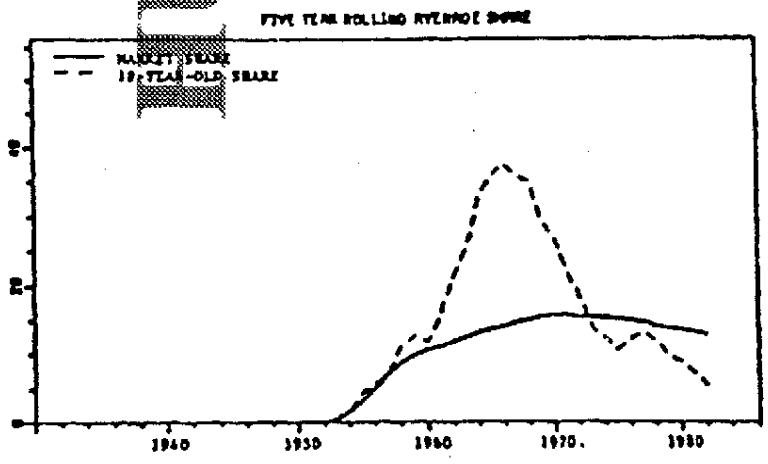
2. The spread of television.

   WINSTON was introduced on TV -- a "fad" that spread from 9% of all households in 1950 to 87% by 1960. Advertising dollars were a key advantage for WINSTON over its filter competitors, and the bulk of those dollars were used to leverage TV.

Younger adult and older smokers alike responded promptly to WINSTON's positive proposition -- "WINSTON Tastes Good" -- its point of difference from other filter brands and the product deficiency non-filter smokers might suspect. WINSTON let Kent and Viceroy sell the benefits of filters and, perhaps, make themselves look like "classy brands" to younger adult smokers seeking maturity.

By 1958, WINSTON was the Number One filter brand and still showing steady market share gains. In the early 1960's, its share among 18-year-old smokers reached some 30%, twice as high as its market share. WINSTON's effect on SALEM and Marlboro during the early 1960's (as shown later) suggests that this 30% share was large enough to put peer pressure on WINSTON's side and make it a "bandwagon brand" among younger adult smokers.

WINSTON




SOURCES: MITCHELL SMITH AND LORD SEE



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WINSTON suddenly lost favor with younger adult smokers in the mid-1960's. This was not due to any sudden changes in WINSTON or Marlboro ads or products. The ban on television advertising didn't hit until 1970. However, two major shifts in the 1960's environment may have left WINSTON less in touch with younger adult smokers.

1. The heavy antismoking activity in 1964-69 may have caused problems for WINSTON:

   - WINSTON's positioning and its development were both slightly female, in tune with the younger adult smokers of the 1950's. However, the antismoking publicity in the 1960's had a disproportionate effect on younger adult females, so it changed the demographic mix. Within only a few years, females fell from 44% to 38% of younger adult smokers and, for a decade, the rising trend was male. Thus, WINSTON became out-of-tune demographically with the younger adult smoker market, because external influences had changed the market of the 1960's.

   - The first FTC report, published in 1967, named WINSTON the highest "tar" non-menthol filter in the market -- higher than some non-filter brands and 8 mg. higher than Marlboro. WINSTON's product-centered proposition may have been vulnerable on this front among younger adult smokers looking for mildness.

   - The intense antismoking campaign on TV may have offset WINSTON's effectiveness in this key medium.

2. WINSTON's light-hearted approach may have also become less attuned to the changing younger adult mindset of the 1960's. In the era of Vietnam, campus riots, and the Chicago Seven, it seems likely that Marlboro's intense, unsmiling cowboy was a better fit.

1965

Come to where the flavor is.
Come to Marlboro Country



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http://www.library.ucsf.edu/tobacco/industry/ Solomon Group/www.library.ucsf.edu/does/lfil0001

The 1983 SDS showed that younger adult smokers are most likely to base their brand perceptions on the people they see using the brand -- more than its advertising, package, or name. Thus, it is possible that WINSTON's own profile might have hastened its downturn among younger adult smokers. Whereas Pall Mall started with few older smokers, WINSTON started strong among all ages. Thus, by 1965, half of WINSTON smokers were over 35 and might have contributed to an older, "establishment" image for the brand.

As WINSTON lost its hold on the 18-year-old smoker market of the mid-1960's, its younger adult smokers dispersed to SALEM and Kool as well as to Marlboro. As with Pall Mall, WINSTON's younger adult female smokers moved more quickly, leaving WINSTON overdeveloped among younger adult males for the first time.

WINSTON SHARE AMONG 18-YEAR-OLD SMOKERS

| | 1956-60 | 1961-65 | 1966-70 | 1971-75 | 1976-80 |
|---|---|---|---|---|---|
| Males | 12% | 31% | 27% | 16% | 11% |
| Females | 14 | 35 | 32 | 9 | 1 |
| TOTAL | 13 ——> | 32 | 29 <—— | 13 <—— | 5 |

Source: 1983 SDS

When the TV ban took effect in 1970, the TV antismoking campaign also ended and younger adult female smokers again became the rising trend. But by this time, Marlboro had become the "bandwagon brand".

There was an uptick in WINSTON's share among younger adult female smokers when its Lights 100's were introduced in 1977, well ahead of their Marlboro counterpart. But, overall, WINSTON's line extensions seem to have had no lasting effect on its younger adult smoker trend.



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Key Points About WINSTON:

- WINSTON benefitted from the health scares of the 1950's, which created the filter boom. It used a positive position -- "WINSTON Tastes Good" -- to capitalize on a negative environment.
- Favorable timing helped WINSTON. It attacked the filter market before earlier filter brands became entrenched.
- Younger adult smokers were as likely as older ones to be early WINSTON adopters.
- Younger adult strength was a leading indicator of WINSTON's extended market share gains and of its softening.
- Peer pressure --- the "bandwagon effect" -- seems to have worked for WINSTON in the early 1960's, when it had a 30% share of younger adult smokers.
- WINSTON may have lost popularity among younger adult smokers because changes in the external environment made WINSTON less in tune with both the demographics and the mindset of the 1960's than it had been in the 1950's. Its large number of older smokers may have contributed by linking the brand to the "establishment".
- WINSTON did not become overdeveloped among males until after its younger adult smoker share had begun to decline.
- WINSTON's line extensions do not appear to have had any long term effect on its younger adult smoker performance, although WINSTON Lights 100's may have caused a temporary rise until Marlboro responded.

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MARLBORO: THE "BABY BUBBLE" BRAND

The leading edge of the Baby Bubble exploded on society as the younger adults of the 1960's. Over 30 was "out" and the younger set was driving fashions, politics, and the marketplace, sometimes violently. And Marlboro would become their brand.

Marlboro had been quickly repositioned in 1954-55 to catch the filter boom. But as a second entry in the "taste/flavor" filter market, with no point of difference but its box, it trailed WINSTON among both younger adult and older smokers.

| 1955-60 | Market Share | 18-Year-Old Smoker Share |
|---|---|---|
| WINSTON | 9% | 11% |
| Marlboro | 4 | 3 |

Judging by its copy, Marlboro's masculine positioning was originally directed at the nonfilter market, which had become overdeveloped among males as it declined. It took eight years of experimentation for Marlboro's permanent "cowboy" campaign to fall in place in 1962. Even then, the WINSTON "bandwagon" held Marlboro at bay.

But Marlboro, through happenstance or design, fit better and better as the pressures of the 1960's evolved.

- Marlboro was a milder product than WINSTON, but its emphasis on flavor kept it positioned as a "real cigarette".
- Marlboro was positioned male during the only decade since 1930 when males were the growth sector among younger adult smokers.
- Marlboro's intensity fit the mindset of younger adults in the 1960's.
- Marlboro's positioning was in tune with younger adult smokers' enduring want to express their maturity and independence through smoking. (The Marlboro cowboy is always shown as a mature, even older man.)
- Marlboro acquired younger adult smokers than WINSTON* and, by the late 1960's, this meant the Baby Bubble, the largest cohort of people, and smokers, in history.

* One way to see this is by comparing the percentage of Marlboro versus WINSTON smokers who smoked at age 18. For example, among White male WINSTON smokers who turned 18 in 1955-70, 70% smoked at age 18; for Marlboro, that percentage was 87%. (Source: 1983 SDS)



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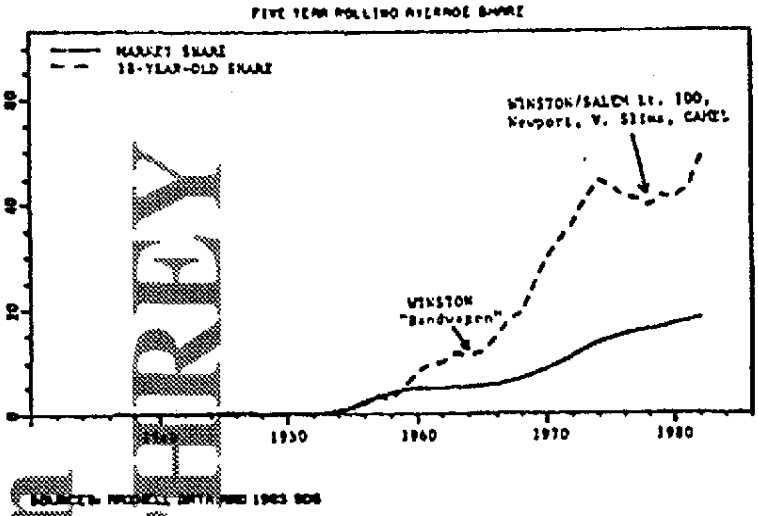
## MARLBORO




Despite Marlboro's masculine positioning, it appears to have been a dual sex brand among younger adult smokers from the beginning. Marlboro skewed male to the same extent the total younger adult smoker market did, but was almost equally developed among younger adult males/females until after 1975.

| Marlboro | SHARE AMONG 18-YEAR-OLD SMOKERS | | |
|---|---|---|---|
| | | Development Index | |
| | Total | Male | Female |
| 1955-64 | 8.5% | 101 | 98 |
| 1965-74 | 31.8 | 104 | 94 |
| 1975-79 | 40.6 | 107 | 94 |
| 1979-83 | 50.3 | 116 | 84 |

Source: 1983 SDS

This balance was advantageous to the brand since the 1960's drop in female importance was only temporary. If Marlboro's masculine positioning had made it a heavily male brand, it would have positioned the brand on a long term declining trend.



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After 1975, Marlboro not only started to skew male, it started to lose its grip on the 18-year-old smoker market:

- Marlboro's 18-year-old smoker share dipped in 1976-77 when both SALEM and WINSTON brought out Lights 100's styles and Marlboro failed to respond until 1978. This may partly account for Marlboro's increasing male skew in the late 1970's and, perhaps, for Marlboro Lights 100's switching gains versus WINSTON and SALEM in the 1980's.

- Newport began to nibble at Marlboro's "first brand" territory. Newport was a brand Marlboro was ill-equipped to compete against, because of its long-standing menthol weakness. This could be a reason for the strong emphasis on Marlboro Menthol in late 1982.

- CAMEL and Virginia Slims each took a bite.

These inroads on Marlboro's younger adult smoker stronghold in the late 1970's barely showed in the brand's market share because aging momentum from the 1950's and 1960's covered its tracks. But these may have been signals that Marlboro's masculine imagery was becoming less in-sync with younger adult smokers over time.

- Males were not the growth sector of the younger adult smoker market in the 1970's. Females were, rebounding from 38% importance in the 1960's to 49% of all 18-year-old smokers by the end of the 1970's.

| | % IMPORTANCE AMONG 18-YEAR-OLD SMOKERS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1950's | | 1960's | | 1970's | | 1980-83 |
| Males | 55 | ——→ | 62 | ←—— | 53 | | 51 |
| Females | 44 | ←—— | 38 | ——→ | 47 | | 49 |

Source: 1983 SDS

- In the 1983 SDS, younger adult males clearly still cared about being seen as masculine -- they don't want feminine imagery! Marlboro's 18-24 smokers also want masculinity, because the majority of the brand's smokers are male. But, Marlboro's younger adult male smokers do not stress masculinity any more than other younger adult males. In fact, younger adult males who smoke other brands are somewhat more likely to want the rugged, traditional masculinity.

Thus, the evidence of share trend, demographics, and wants tends to suggest that Marlboro's positioning may have become less in tune with the younger adult smoker market during the late 1970's and 1980's.



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Once Pall Mall and WINSTON had turned down among younger adult smokers, there was no return. How, then, has Marlboro managed to hold, even recoup, among 18-year-old smokers in the 1980's?

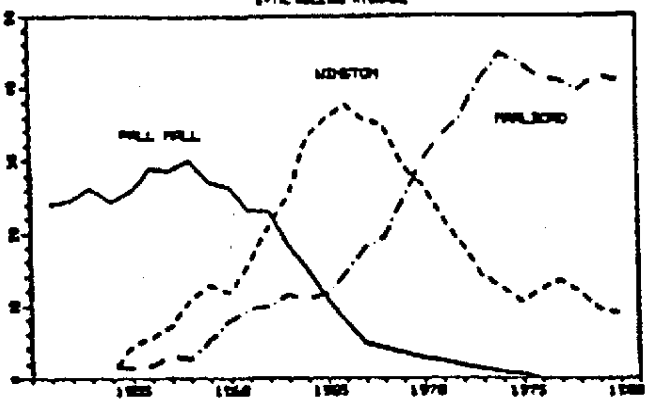
1. In the 1983 SDS, younger adult smokers were much more likely than other smokers to base their brand perceptions on the people they see using the brand. But, among all brands, younger adults were most likely to base their Marlboro perceptions on brand users. (See Appendix F). Since, in 1983, 70% of Marlboro users were under 35 and fully 36% were under 25 (BDI = 218), Marlboro's very size among younger adult smokers may give it an effective positioning that has little to do with the positioning of its advertising. Marlboro's younger adult smokers can be their own campaign, automatically in tune with the times.

2. The SDS showed that Marlboro's key imagery was not masculinity, it was younger adult identity/belonging -- the brand for average younger adults, popular and acceptable among younger adult friends, not "too different". This makes sense as the imagery Marlboro's users would convey, apart from the brand's advertising, pack, or name.

3. Marlboro is clearly seen as a quality product, even by younger adult smokers who prefer other brands. Marlboro smokers want to "buy the best" and they think that Marlboro is the best. This may reflect specific product performance, since in-market test results over the last decade indicate that Marlboro King's smoother, less harsh delivery has been consistently preferred over the stronger WINSTON King. This was still the case among younger adult smokers in 1983 testing. (See Appendix G.)

4. Marlboro has the "bandwagon effect" still going for it. In fact, the trend over the decades has been for younger adult smokers to increasingly cluster behind one big "first brand", a trend that parallels the increasing pressures against smoking during these times. This could mean that as social pressures tend to isolate younger adult smokers from their nonsmoking peers, they have an increased need to identify with their smoking peers, to smoke the "belonging" brand.

SHARE AMONG YOUNGER ADULTS*




* 18-Year-Old Smokers, 1983 Segment Description Study



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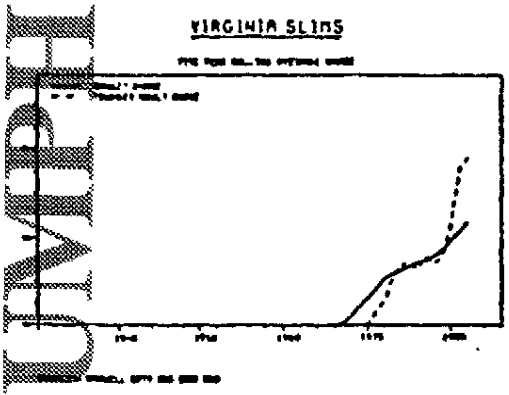
Philip Morris may itself recognize Marlboro's vulnerability. (Certainly the brand's switching losses among 18-24 year olds have been visible in the 1980's, averaging the equivalent of .3 share points of total smokers every year.) While Marlboro could not be repositioned after 20 years of the same campaign, some clues suggest PM may be using other strategies to protect Marlboro's contribution to their younger adult share strength:

- Virginia Slims and Merit have been gaining disproportionate switching from Marlboro among smokers 18-24, allowing Philip Morris to keep 32% of Marlboro's net switching losses from 1980 to 1983 within the corporate fold -- nearly twice PM's fair share. (See Appendix H). This suggests that Marlboro might serve PM as a "feeder brand", capturing 18-year-old smokers who can then be channeled to other PM brands.

- Virginia Slims' performance as an 18-year-old "first brand" has improved markedly in recent years. This may relate to its softer, more casual executions which are more consistent with the younger adult Marlboro female's desire to not be "too bold".




- The Merit repositioning seems to draw it closer to Marlboro, perhaps shortening the supply lines.



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Key Points About Marlboro

1960's

- Marlboro succeeded with a "first brand" strategy targeted to the leading edge of the Baby Bubble, who turned 18 in the 1960's.
- Younger adult smokers have been a clear leading indicator of Marlboro's market share growth.
- Marlboro was only a second entry in the taste/flavor filter market until it developed its image-intensive long term campaign/ positioning. This took eight years of trial and error.
- Marlboro's final positioning, set in 1962, was in tune with the mindset of the 1960's and also with the demographic shifts among younger adult smokers, since females dipped in importance during that decade.
- Despite Marlboro's masculine positioning, it was almost equally developed among younger adult males and females until after 1975. Overdevelopment among males would have disadvantaged the brand.

1970-

- Marlboro's younger adult smoker share softened in the late 1970's, but it had built enough aging momentum that its SOM trend slowed only slightly.
- Certain evidence suggests that Marlboro's positioning has become less in tune with younger adult smokers than it was in the 1960's.
  - Females, not males, have been the growing sector among younger adult smokers. Marlboro has been losing strength among females.
  - Younger adult Marlboro males' interest in masculine imagery is no stronger than the average younger adult male smoker.
- Marlboro is a "bandwagon brand" today.
  - Marlboro users provide the brand's imagery today more than its advertising does.
  - Marlboro stands for "the average younger adult." Peer popularity is its added benefit.
  - Marlboro smokers believe in its high quality. It is seen as much smoother than WINSTON, but less strong.
- Younger adult smokers' need for "belonging" is strong and may be increasing due to social pressures against smoking. Marlboro provides a means of belonging.
- Marlboro suffers high switching between ages 18-24, but Philip Morris retains about twice its fair share of those switchers, via Virginia Slims and Merit.

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SALEM/Kool/Newport

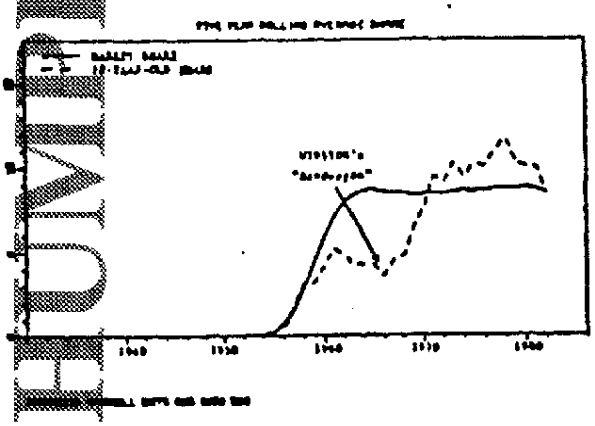
SALEM

SALEM's product breakthrough was "light menthol". Kool nonfilter had been in market since 1931, but it was advertised more like a cold remedy than a cigarette and, apparently, tasted like it. When SALEM lowered the menthol and added a filter, it cut an 8% niche in the market.

At first, younger adult smokers adopted SALEM as readily as older ones but, in the early 1960's, its 18-year-old smoker share went flat. It appears that this had more to do with WINSTON than either SALEM or Kool -- the WINSTON "bandwagon effect" was drawing 18-year-old smokers like a magnet. When WINSTON let go in the late 1960's, SALEM could again attract its fair share of younger adult smokers.

Although SALEM became stronger among younger adult smokers of the 1970's, it has never become a true "first brand". A fair share of younger adult smokers, though, is enough to keep market share steady for a long time.

SALEM



Kool

The key trend for Kool was the emerging importance of younger adult Black smokers in the market. In the health-concerned 1960's, younger adult Blacks didn't back off from smoking to the extent that Whites did. Because of this, their importance surged from 6% of 18-year-old smokers in the 1950's to 10% in the 1960's.

Younger adult Blacks of the 1930's to 1950's had basically gone with whatever brand was big among younger adult White smokers (See Appendix I). In the 1960's, they began to coalesce behind Kool, which only had a 2% share among younger adult Whites. It was time for Blacks to build their own brand in the 1960's, the heyday of Martin Luther King and "Black pride".



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Kool apparently capitalized on this aspect of the 1960's by simply advertising to Blacks before its competitors did. Kool ads were in Ebony consistently from at least 1962, when our records start. This was easy for Kool, since its early-60's penguin campaign fit either race, and it was effective. Kool became "cool" and, by the early 1970's, had a 56% share among younger adult Blacks -- it was the Black Marlboro.

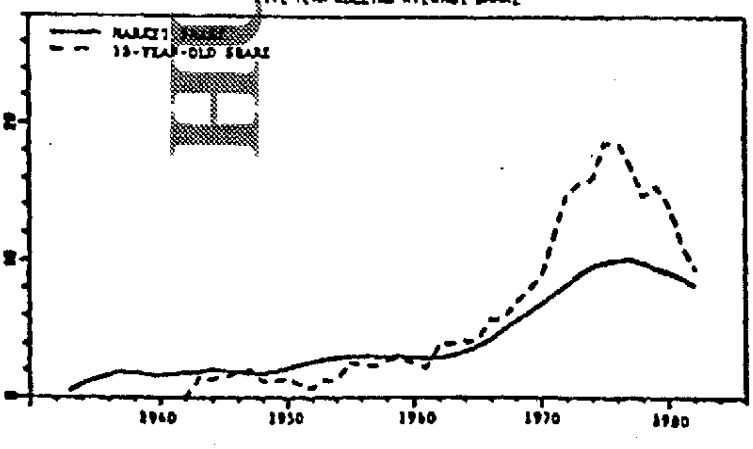
KOOL SHARE AMONG 18-YEAR-OLD SMOKERS

| | 1950's | 1960-64 | 1965-69 | 1970-74 | 1975-79 | 1979-83 |
|---|---|---|---|---|---|---|
| Black | 10% | 12% | 17% | 56% | 44% | 34% |
| White | 1 | 2 | 4 | 11 | 11 | 5 |
| TOTAL | 2 | 3 | 6 | 14 | 15 | 8 |

Source: 1983 SDS

Like Marlboro, Kool capitalized on the shifts in the 1960's market. And, by the 1970's, it was falling out of step with the trends of the times -- younger adult Whites were returning to smoking, leaving Kool with a 500 BDI in a sector whose importance was no longer booming. Kool was in a bind in the Black market, too, with SALEM suddenly spending about as much as Kool against Blacks. (See Appendix J). Kool also splintered its positioning in the 1970's, advertising each line extension with its own thrust -- Kool 100 was "Lady Be Cool", Kool Milds was dual sex, upscale, etc. Kool was vulnerable and Newport capitalized on that vulnerability.

KOOL



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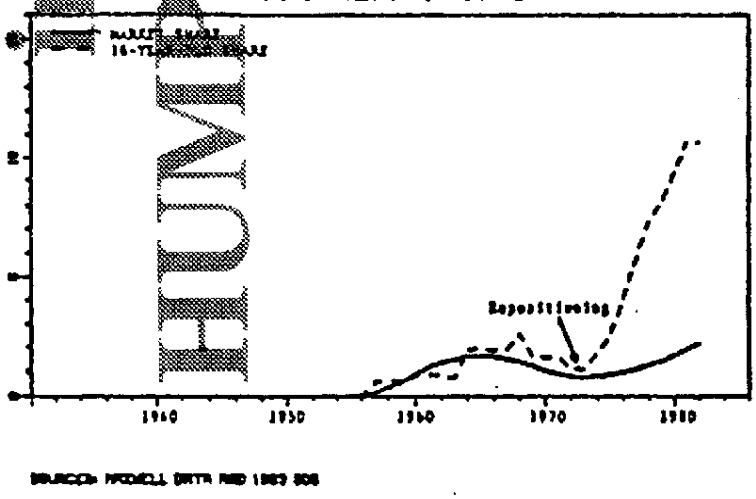
Newport

Newport was completely redone between 1970-73 -- campaign, product, package. When the "new" Newport went to market in 1973, it went only against the northeastern U.S., which had been a focal point of Black population growth throughout the sixties as Blacks left the south.

Newport was the first menthol to emphasize imagery but, on the bottom line, Newport went after Kool with dollars. Newport's total ad spending in the mid-1970's was only about 30% of Kool's, but it was concentrated in some 20% of the U.S. Half of Newport's budget was in out-of-home. By 1978, Newport's regional spending against Blacks equalled Kool's national Black market spending. Newport had picked Kool's prime market, with a size it could afford, and essentially bought it. The results among younger adult smokers, especially younger adult Blacks, were immediate.

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In the 1980's, Newport started rolling out across the South Atlantic, where migration patterns of the 1970's showed Blacks had been returning. Tracker data during this rollout period tend to confirm that Newport gained among younger adult Whites as it gained distribution, but its fundamental growth has been due to younger adult Blacks.

NEWPORT MENTHOL SHARE OF SMOKERS

| | 1980 | 1981 | 1st Half 1982 | 2nd Half 1982 | 1st Half 1983 |
|---|---|---|---|---|---|
| AGES 18-24 | | | | | |
| Black | 18.6% | 22.4% | 25.2% | 28.9% | 36.6% |
| White | 4.4 | 4.9 | 5.5 | 5.0 | 4.9 |
| TOTAL | 6.1 | 7.0 | 7.5 | 7.6 | 8.5 |

Source: MDD Tracker

All of Newport's growth has also been due to its King, which seems better attuned to younger adult product wants than Kool. In 1982, younger adult smokers rated both as acceptable products but found Newport King was significantly smoother, milder and less harsh than Kool King. (See Appendix K.) In qualitative work, Newport King is even described as a "light" (i.e., low "tar") product, despite its 18 mg. level.

The SDS showed that Newport, like Marlboro, relies heavily on its users to provide brand imagery among younger adult smokers (See Appendix F). And, Newport has the youngest franchise of any brand in the market -- 53% were 18-24 in 1983. Thus, it is no surprise that Newport has become the alternate younger adult identity brand, for those who don't want to just follow the crowd. For Blacks, it's today's alternative to Kool; for Whites, it's an alternative to Marlboro.



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Key Points About SALEM/Kool/Newport

SALEM

- In its early years, SALEM's appeal to younger adult smokers was overshadowed by WINSTON.
- SALEM gained among younger adult smokers of the 1970's, especially Blacks, by spending more effectively against Kool, but never has become a true "first brand".

Kool

- Kool's growth, much like Marlboro's, hinged on demographic shifts caused by the antismoking 1960's.
- Kool was in tune with the rising importance of younger adult Blacks in the 1960's. The mindset of "Black identity" made it time for Blacks to adopt their own brands, rather than follow the general market.
- Kool gained "Black identity" by advertising to Blacks before its competitors.
- When younger adult Whites returned to the market of the 1970's, Kool was suddenly too Black to fit the younger adult market and became vulnerable. Kool also splintered its heritage, positioning itself by style.

Newport

- Newport, when it was repositioned, essentially bought Kool's prime North Atlantic market by intense spending in out-of-home and against Blacks.
- It appears that Newport has gained younger adult White smokers by gaining distribution but its fundamental growth is among Blacks.
- Younger adult smokers rate Newport as milder/smoother than Kool.
- Newport users are the main source of Newport perceptions. It is seen as the alternative younger adult brand -- for Blacks an alternative to Kools, for Whites an alternative to Marlboro. It's for those who don't want to follow the crowd.

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SECTION III

KEY

LEARNING

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## III. KEY LEARNING: SUMMARY & CONCLUSIONS

The previous two sections have discussed the importance of a strong position in the younger adult smoker market and the strategies/circumstances which have, in the past, allowed brands/companies to achieve growth among younger adult smokers. By integrating the key points from these sections, several conclusions can be reached.

### 1. THE IMPORTANCE OF YOUNGER ADULT SMOKERS

- Strong performance among younger adult smokers is critical to generating sustained growth momentum for brands/companies.
  - "New" 18-year-old smokers represent about 1.4 share points of incremental volume each year.
  - A younger adult smoker who has been gained and retained appreciates in value over time because of increased consumption. Older smokers do not.

- The biggest cigarette brands of the last half century have derived their strength from high younger adult development -- Pall Mall, WINSTON, Marlboro, and Kool. Newport may become another such brand, but its rise is currently limited by distribution and lack of a broad geographical marketing effort.

In each case,

- Younger adult gains have been a long term leading indicator of the brand's market share gains. Typically, major market share growth has lagged the brand's younger adult smoker growth by at least five years.
- Continuing loss of younger adult strength has also been a leading indicator of market share softness and decline, although aging may bolster the brand's SOM for a decade or more.
- These brands have been the flagship brands driving their companies' performance and each has been superceded by a brand from another company. Thus, younger adult growth performance has been a leading indicator of long term corporate performance.

  At present, Philip Morris and Lorillard are the only companies showing steady younger adult performance gains.



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- Major performance gains among younger adult smokers do not necessarily have a major effect on short term total market share. This means that competition may be slow to notice an improvement of RJR performance among younger adult smokers and, therefore, may be slow to react.

  - A "first brand" strategy (which necessarily targets younger adult smokers) provides an opportunity for unique long term benefits. However, it is likely that at least two to three years of close tracking would be required to determine the degree of success of a "first brand" effort.

  - Younger adult smokers provide the most concentrated switching opportunity in the market. While a switching strategy is inherently less cost effective, it may be more feasible in the short term and may also produce more short term share results. Some switching appeal will be necessary to build enough early share for a "first brand" to hold the shelf.

- Younger adult smokers have been as likely or more likely than older smokers to be early adopters of brands which have ultimately succeeded as "first brands" over the last 50 years. Younger adults have not flocked to brands which were already large in the total market, possibly because the existing older franchise inhibits younger adult identification with the brand.

- Patterns observed for WINSTON suggest that a "bandwagon effect" may accrue to a "first brand" which achieves an 18-year-old share near the 30% level. When WINSTON's share reached this level, younger adult smoker growth was curtailed on both SALEM and Marlboro, until WINSTON's share again fell below that level.

## II. SUCCESSFUL YOUNGER ADULT BRAND STRATEGIES OF THE PAST

The successful younger adult brands of the past have used strategies with many similar themes. In nearly every case, these brands have capitalized on the following types of opportunities, which will be discussed in more detail.

A. External Factors
B. Growth Sectors Within Younger Adult Smokers
C. Out-of-Touch Competitors
D. Product Delivery/Communication



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A. External Factors

- Past periods of intense publicity on the health issue appear to have played a key role in the succession of the major younger adult "first brands."
  - WINSTON capitalized on the filter boom, which gained momentum from the "health scare" environment of the early 1950's.
  - Marlboro capitalized on the changing mix of males/females in the 1960's, which arose from their different reactions to the intense health publicity of that time.
  - Kool capitalized on the similar shift between Blacks/Whites in the 1960's.
- Based on the WINSTON experience, product "breakthroughs" which address external factors are more likely to produce short term share results than those based primarily on imagery wants of younger adult smokers.

B. Growth Sectors Within Younger Adult Smokers

- Successful "first brands" have capitalized on subtle demographic shifts within the younger adult smoker market. Their "formula for success" appears to have been to target the FUTURE profile of younger adult smokers, i.e., to be better developed among sex/race/geographic groups which are gaining importance, but only to the extent that reflects the group's rate of growth. This "formula" will usually imply broad based, nearly balanced appeal rather than overemphasis on male/female, Black/White, or other factors.
  - Pall Mall was strongly developed among younger adult female smokers while their importance was increasing most rapidly.
  - WINSTON was introduced when younger adult female importance was modestly increasing and was slightly better developed among females, but essentially a balanced brand.
  - Marlboro was slightly better developed among males during the 1960's, when female importance dipped, but was essentially a balanced brand until after 1975.
  - Kool was highly developed among Blacks and grew when their importance among younger adult smokers surged in the 1960's.
  - Newport targeted Blacks in the northeastern U.S., where the Black population was growing most rapidly in the 1970's, and has moved to the south, following the return migration.



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B. Growth Sectors Within Younger Adult Smokers (Cont.)

- The dominant trend in the younger adult smoker market over the last 50 years has been the rising importance of females. Because of this, the major "first brands" have been overdeveloped among males only during their periods of decline. Marlboro has become overdeveloped among younger adult males only after 1975, when its share was softening among younger adult female smokers.

- One key to Marlboro's success in capturing the Baby Bubble appears to be that it attracted more 18-year-old smokers than WINSTON, within the younger adult smoker market. That is, it was clearly a "first brand", with relatively lower switching appeal.

C. Out-Of-Touch Competitors

In every case, the major younger adult brands have been succeeded by a competitor's brand positioned to be significantly different from the predecessor. The softening/decline of the major younger adult brands seems linked to an inability to "stay in tune with the times" as well as a new competitor "started in tune with the times" at its introduction/repositioning. While the real criteria for being "in tune" are probably the mesh between imagery and/or product and the wants of younger adult smokers of the times, demographics are a useful tool for identifying the likelihood of that mesh.

- Pall Mall became out of touch with younger adult smokers' product wants when it failed to effectively react to the filter boom of the 1950's. WINSTON fit those wants.

- WINSTON was the victim of subtle shifts which may have been transparent or seemed transitory at the time.

  - WINSTON's light-hearted campaign fit well with the mindset of the 1950's, but did not fit as well with the rising tide of intense younger adult rebels as Marlboro did in the 1960's.

  - WINSTON's campaign had a slightly female slant and so did its franchise. In the 1960's, younger adult females were losing importance and males were gaining -- a better fit for Marlboro.

  - WINSTON's popularity among older smokers may have made it difficult to maintain an exclusively younger adult identity during the 1960's, when that want was most extreme.

- Kool found itself "too Black" in the 1970's as younger adult Whites were rapidly regaining market importance.



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C. Out-Of-Touch Competitors (Cont.)

- Marlboro's advertising/positioning seems to have become less in touch with the demographic trends within younger adult smokers of the late 1970's and 1980's and, perhaps, their mindset.
  - Younger adult female smokers were the key growth sector in the 1970's and 1980's.
  - Today, Marlboro's younger adult male smokers do not have an above average interest in masculine imagery versus all younger adult males.
  - Philip Morris may have recognized Marlboro as vulnerable. Marlboro's disproportionate switching losses to Virginia Slims and Merit tend to feed Marlboro's losses back to PM. The campaign modifications on these brands may shorten the lines of supply.

D. Product Delivery/Communication

- Throughout the succession of "first brands", younger adult smokers have moved to "milder" products.
  - Pall Mall promised "mildness" based on its length.
  - WINSTON, as a filter product, would be seen as milder than nonfilters.
  - In the 1960's, Marlboro was "milder", i.e., significantly lower in tar, than WINSTON, as was advertised by the FTC. Today, Marlboro is still rated milder/smoother than WINSTON by younger adult smokers and is preferred.
  - Kool and SALEM could be seen as milder because of their menthol.
  - Newport is perceived as milder/smoother than Kool.
- Successful "first brands" have used positive product messages.
  - Pall Mall emphasized milder smoking "pleasure".
  - WINSTON "Tastes Good" despite its filter.
  - Marlboro is "where the flavor is", although historically and presently smoother than WINSTON.
  - Newport speaks to smoking "pleasure".



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- By omission, no brand whose product messages remind the consumer of product negatives or portray the brand as a "weak cigarette" has succeeded as a younger adult first brand. For example, any brand which has specifically emphasized "low tar" (which implies remaining tar) has been limited to switching gains among maturing smokers.

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SECTION IV

IMPLICATIONS AND RECOMMENDATIONS FOR RJR

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## IV. IMPLICATIONS/RECOMMENDATIONS FOR RJR

1. Younger adult smokers are critical to RJR's long term performance and profitability. Therefore, RJR should make a substantial long term commitment of manpower and money dedicated to younger adult smoker programs. An unusually strong commitment from Executive Management will be necessary, since major volume payoffs may lag several years behind the implementation of a successful younger adult smoker strategy.

This time lag can also magnify the penalties for wrong turns in the development and implementation of younger adult smoker programs. To prevent such problems:

- RJR should develop objectives, planning procedures, and marketability criteria for younger adult brands/programs which reflect their unique, long term character. These may differ significantly from the approaches/measures which are appropriate to established brands or to new brands addressing older smokers.
  - Thoroughness should be emphasized.
  - Innovation, experimentation, and multiple approaches should be encouraged.
  - Rigorous, objective consumer-based action standards should be established to ensure that volume results will ultimately follow and that continuing Management commitment is warranted.
- RJR should make resources available to develop/improve its capabilities to thoroughly identify and track demographics, values/wants, media effectiveness, and brand performance within sectors of the younger adult smoker population. These tools will be critical to the development and implementation of effective programs among younger adult smokers.
- Because of the sensitivity of the younger adult smoker market, brand development/management should encompass all aspects of the marketing mix and maintain a long term, single-minded focus to all elements -- product, advertising, name, packaging, media, promotion, and distribution. Tactics which could negatively affect the integrity of the strategy should be avoided.



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2. RJR should seek to better understand and capitalize on the market conditions/approaches which have successfully created younger adult strength for brands/companies in the past:

A. External Factors
B. Growth Sectors Among Younger Adult Smokers
C. Out-Of-Touch Competitors
D. Product Delivery/Communication

Since RJR's processes/tools have been better attuned to switching efforts than to "first brand" strategies, time and learning will clearly be required to fully assess the opportunities available through these avenues. It should be noted that the new/established brand programs in the 1984 Plan already address the major issues/trends identified below, within the framework of current knowledge/processes. These Plans should continue as a basis for RJR's 1984 marketing efforts, but should be enhanced by a full time dedication of resources to ensure a solution to the problem.

A. External Factors (Detail in Section V)

- SOCIAL ACCEPTABILITY

A breakthrough product which effectively addresses social acceptability concerns could revolutionize the market as WINSTON did in the health-concerned 1950's. The ultimate size of this opportunity will depend on younger adult smoker acceptance. Thus, RJR should consider:

- The need to develop a social acceptability product whose smoking benefits meet younger adult smokers' wants as well as other smokers' wants.

- Planning a second entry social acceptability brand which could emphasize mainstream younger adult imagery and product positives, thus avoiding the connotations of "social concern" which would likely be associated with the first entry. Thus, RJR could enter its own "Marlboro" to follow the "WINSTON of the 1980's."

- PRICING

Pricing is a key issue in the industry. Some evidence suggests that younger adult smokers are interested in price, but unlikely to adopt a brand whose only "hook" is price. To maximize the possible pricing opportunity among younger adult smokers, several alternatives should be considered:



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- A price/value brand would need a conspicuous second "hook" to reduce possible conflict between younger adults' value wants and imagery wants. The most saleable "hooks" are likely to be based on product quality, since these provide easy-to-explain public reasons for switching. Suitable imagery should also be used.

- Since younger adult smokers with above-average interest in value are concentrated in the Coolness segment, it is possible that younger adult smokers might be responsive to an appropriately positioned value-oriented menthol entry.

- Tactically, extended periods of closely targeted pack promotion (BIGIF, sampling) in selected sites (e.g., convenience stores, military exchanges, special events) could lead to brand loyalty from repeated trial. This should be considered an investment program.

B. Growth Sectors Among Younger Adult Smokers (Detail in Section V.)

- Younger adult Hispanic and Black smokers should be key RJR targets, since they are gaining importance in the younger adult smoker markets.

  - Resources/manpower should be made available to increase understanding of the dynamics, wants, and executional sensitivities within these markets.

  - Heavy-up advertising in selected media are likely to be beneficial against younger adult Black smokers, based on Newport/Kool history.

  - Competitive advantage could accrue from these special market programs, since Philip Morris has intensified its Black/Hispanic marketing efforts.

- Females are continuing to gain importance among younger adult smokers and, based on their diversity, should afford a number of potential opportunities.

  - Since the continuing trends to working women and "new masculinity" imply greater commonalities between the sexes, a dual sex brand which appeals to, but is not limited to women may be "in tune with the times."

  - "Style/Dress" remains a pronounced interest among younger adult female smokers, but should be executed to provide a clear point of difference and not be "too bold."



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B. Growth Sectors Among Younger Adult Smokers (Cont.)

- "Moving up in the world" has been identified as a key enduring want among younger adult smokers. This imagery need is likely to grow, since younger adults who follow the Baby Bubble are likely to experience limited opportunities for traditional success.
  - Limited opportunity to "move up" within the establishment may lead younger adults to more entrepreneurial means of success, such as fame via the performing arts. This type of concept meshes with younger adults' key activities/interests, apparently represents an enduring want, and therefore may provide an innovative opportunity to be clearly different from competition.
  - A "status symbol" brand may attract some younger adult smokers, as an affordable compensation for other luxury items, if it can be executed to key on younger adult definitions of "class" and achieve clear difference versus competition.

C. Out-Of-Touch Competitors

- Based on history, RJR should emphasize competitive efforts which are clearly different from the target brands. Head-on or imitative strategies should be pursued as defensive rather than offensive measures. Thus, RJR should target younger adult smokers based on their inherent wants/differences rather than letting competitors define the market.
- Marlboro has become somewhat out-of-touch in that it is too male to fully capitalize on the female growth sector and its masculine imagery is less of a "hook" in the 1980's. However, Marlboro's users themselves provide the brand a strong positioning as an identity/belonging brand. Since Marlboro is not likely to be preemptable on belonging and is not strongly profiting from its "masculinity", other less head-on strategies hold more promise at present.
  - Marlboro smokers are half of the younger adult market and, thus, encompass a diversity of wants. This implies that successful attacks on any key sectors of the younger adult market are likely to hurt Marlboro. Thus, a variety of approaches should be developed to address the spectrum of younger adult smokers rather than limiting creative options by defining the market strictly in terms of Marlboro.



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C. Out-Of-Touch Competitors (Cont.)

- Virginia Slims and Merit should be high priority competitive targets, since they appear to play a key role in defending Philip Morris against Marlboro's traditionally high switching losses.

- VANTAGE may have an opportunity to compete more effectively for younger adult Marlboro switchers, based on its history of switching gains from Marlboro. (Shown in Appendix H).

D. Product Delivery/Communication

- Smooth, mild product delivery seems to have been a key factor in the succession of younger adult brands. Therefore:
  - RJR should ensure that product wants among smokers 18-24 are fully understood and reflected clearly in action standards for products targeting younger adult smokers.
  - RJR should give high priority to eliminating elements of harshness from its younger-adult-targeted products.
- RJR should use copy strategies which emphasize product positives to younger adult smokers. Connotations of "weak", "concerned", or "low tar" should be avoided and elements of mild, smooth, rich, smoking pleasure should be emphasized.

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SECTION V

KEY

TREND

DETAIL

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## PRICING

### Opportunity Analysis

Pricing is a key issue because of the pressures of the FET increse and the ensuing surge in sales of generic/private label brands. The impact of price on younger adult smokers is a complex question, which is likely to require additional learning, over time, to completely resolve.

Studies by the National Bureau of Economic Research (NBER) were used by the government as a rationale for the FET increase. These studies indicated that price had a much stronger effect on smoking by younger adults, particularly males, than on any other age group, because people were less likely to start smoking in an environment of higher cigarette prices. Thus, over an extended period of time, younger adult smokers would tend to become less price sensitive, since those who react most strongly would not become smokers. However, the NBER studies clearly imply that price influences younger adults, so that price/value may offer an opportunity for some share leverage among current younger adult smokers.

### Strategic Alternatives

1. In the 1983 SDS, younger adult males were more likely than any other smokers to say they would buy generics for any price differential, large or small. Yet they were least likely of all smokers to report a generic usual brand. The explanation is probably conflicting wants:

   - Younger adult males want to be seen as successful, someone who buys the best regardless of price.
   - They want to make a good impression on others, smoke a brand acceptable to their friends.
   - They have little interest in being seen as "smart shoppers".

   Field reports from the military market confirm this conflict. Generic sales were booming but none of the men were seen smoking them -- because they were putting the generics in Marlboro packs.

   Younger adult females have a more average attitude toward cost-conscious imagery but are also unlikely to adopt generics, perhaps because conflict with their own "upward striving" wants, such as style/dress.

   Thus, to maximize opportunity among younger adult smokers, a price/value brand will need a second "hook" to its proposition to allow younger adult smokers to switch on the basis of other, more acceptable wants as well as price. While imagery will be desirable, probably necessary, to brand success, the most likely second "hook" is product quality/taste since this is a more easily expressed public reason for adoption. Examples would be "computer technology produces better smoke at lower cost" or "pay for the best product, not the big brand name."



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2. Younger adult males in the SDS were more likely than any other smokers to have taken advantage of BIGIF offers. Such pack promotions provide the savings benefit without conflicting imagery but typically yield trial or occasional usage rather than a change in brand loyalty. Carton offers, on the other hand, tend to reach older smokers. But, if RJR could closely target pack price promotions to younger adult smokers over an extended period of time, brand loyalty might be captured. This would be an investment program. Its cost effectiveness would depend on how tightly promotions could be targeted to younger adult smokers via, for example, military exchanges/canteens, selected convenience outlets, etc.

Any other price tactics on established brands could tend to undercut their perceived quality/value.

3. An SDS profile of younger adult smokers who have more interest than their peers in a value brand, but lower confidence in generics, showed high Coolness Segment development. Although, as seen above, price behavior may differ from expressed wants, there may be somewhat higher potential for a menthol entry to appeal to younger adult smokers on the basis of value/price.

Key Points

- Any price/value strategy will need a preemptive second "hook" to make it easy for younger adult smokers to switch for a reason other than price. Product-based "hooks" are easiest for consumers to publicly express.
- Since younger adult Coolness smokers have somewhat above average interest in value, a menthol entry may warrant consideration.
- Tactically, closely targeted, long running BIGIF's may yield some younger adult switching (as opposed to trial).



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## SOCIAL ACCEPTABILITY

### Opportunity Analysis

Social pressures against smoking are high and increasing. This negative influence is somewhat similar to the health situation in the early 1950's. Therefore, it is possible that products which effectively address the perceived social negatives of smoking and also provide adequate smoker benefits could revolutionize the future market just as filters revolutionized the market during the 1950's. It is possible that RJR will have an opportunity to repeat the WINSTON success in the 1980's environment.

The long range impact of such products on the industry will ultimately depend on their acceptance among younger adult smokers, just as the filter revolution did. At present, younger adult smokers and nonsmokers are becoming polarized on social acceptability -- younger adult smokers show less concern with the issue than older smokers, while younger adult nonsmokers are somewhat more concerned.

"In general, you are more acceptable to people if you don't smoke."

| % AGREE | SMOKERS | | NONSMOKERS |
|---|---|---|---|
| 18-24 | 49.5% | ⟶ | 73.2 |
| 25+ | 55.3 | | 71.1 |
| Total | 54.4 | | 71.5 |

Source: 1983 Smoking Attitudes Study

Given younger adult smokers' keen interest in peer acceptance/approval, it is likely that younger adult smokers would be interested in a brand which effectively addresses social acceptability and also provides the other smoking benefits they want. However, if that brand is positioned as "socially concerned", younger adult smokers may try it as a novelty but are unlikely to adopt it as a regular brand -- younger adults who wish to be seen as "concerned" are more likely to choose to be nonsmokers.

### Strategic Alternatives

1. First Entry Brand

If RJR achieves first entry with a social acceptability brand, younger adult smokers are more likely to adopt it if the brand proposition is as positive and mainstream as possible. This was essentially WINSTON's approach to the health concerns in the 1950's. WINSTON let Kent and others sell "safer" filters, while WINSTON let people know it had a filter but emphasized the positive of taste. For example:

- The added product benefit might be "enhances sociability" rather than courtesy (which implies potential disapproval from others).

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- The name, package, and post-introductory advertising (once clear awareness of the point of difference was established) could emphasize supportable claims that the brand also provides a full measure of benefits of "old style filters" such as taste, satisfaction, draw, and imagery.

2. Second Entry Brand

The opportunity may be greater for a second entry social acceptability brand to establish mainstream appeal among younger adult smokers, since the first entry must push the product difference. Thus, the first entry might automatically be viewed as "concerned" even if it went mainstream post-introduction, i.e., quickly repositioned itself.

Other advantages of the second entry strategy could be:

- The strategy is equally viable whether RJR or another company hits market first with a social acceptability brand (assuming that product development timetables will be similar between companies).

- RJR could cover the bases by offering both a "concerned" and a younger-adult-oriented entry. If the first product is a satisfactory smoke, it could be used under both positionings.

3. Line Extensions

If social acceptability entries catch on, RJR should be prepared to defend its established brands with appropriate line extensions. Although a mainstream second entry brand could, itself, be a line extension, this would dilute leverage of "the new way to smoke" versus "old style filter cigarettes" and allow competitive brands to more easily respond. The least likely candidates for this type of line extension would be brands committed to "virility" such as CAMEL and, hopefully, Marlboro.

Key Points

- Products addressing social acceptability could revolutionize the market in the same way filters did in the "health scare" environment of the 1950's.

The long range outlook for such products will depend on their acceptance by younger adult smokers.

- To be adopted by younger adult smokers, a social acceptability brand should:

  1. Offer adequate smoking satisfaction as well as effective relief from social pressures.

  2. Be positioned positively rather than as "socially concerned", perhaps using essentially the WINSTON strategy of the 1950's.

- A second entry social acceptability brand is more likely to be able to position itself in the younger adult mainstream.



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## BLACK/HISPANIC YOUNGER ADULT SMOKERS

### Opportunity Analysis

Younger adult Black and Hispanic smokers are dramatically increasing in importance and will, conservatively, comprise 20% of the 18-24 market by 1990.

| | 1965 | 1976 | 1980 | | PROJECTED 1990 |
|---|---|---|---|---|---|
| BLACK | | | | | |
| % Pop. 18-24 | 11.2 | 12.4 | 13.0 | | 14.8 |
| % Smokers 18-24 | 12.9 | 13.4 | 13.6 | ——→ | 14.5 |
| Index | 115 | 108 | 105 | | 98 |
| HISPANIC | | | | | |
| % Pop. 18-24 | NA | 5.7 | 7.5 | | 9.9 |
| % Smokers 18-24 | NA | NA | 3.9 | ——→ | 5.1 |
| Index | NA | NA | 52 | | 52 |
| BLACK & HISPANIC | | | | | |
| % Pop. 18-24 | NA | 18.1 | 20.5 | | 24.7 |
| % Smokers 18-24 | NA | NA | 17.5 | ——→ | 19.6 |

Sources: Census Bureau Hispanic Omnibus Study; "Projections of Hispanic Population for the U.S., 1990 & 2000" (Center for Continuing Study of the California Economy); "Health, U.S., 1981".

### BLACKS

Since the Kool phenomenon began in the 1960's, younger adult Blacks have moved increasingly to menthol products, which have accounted for 90% of the younger adult Black market in recent years. In 1983, 72% of Blacks 18-24 smoked one of the 3 major Coolness brands, although the segment has been getting some competition from Stylish brands. Virile brands, even Marlboro, have virtually no appeal to Blacks.

| | SHARE AMONG BLACK SMOKERS 18-24 | | | | |
|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | Avg. Pt. Chg. |
| Kool | 34.6 | 30.8 | 27.9 | 21.8 | - 4.3 |
| Newport M | 18.6 | 22.4 | 27.2 | 36.4 | + 5.9 |
| SALEM | 17.2 | 19.2 | 17.3 | 13.6 | - 1.2 |
| Coolness | 71.3 | 72.8 | 73.0 | 72.1 | + .3 |
| Menthol | 88.7 | 89.9 | 91.5 | 88.9 | + .1 |

Source: MDD Tracker



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Newport is the growth brand among younger adult Blacks, yet it is not perceived as particularly relevant to their key wants/concerns: "moving up in the world," style/dress, and powerlessness. Effective spending appears to have been key to its success, although product mildness versus Kool may have played a role.

Kool appears to have risen partly from an emerging desire for Black identity, but it is not clear that this want is as pronounced among younger adult Blacks today.

- The SDS showed that younger adult Blacks were less likely than older Blacks to believe "it is important to remember my roots."
- Although Newport is prominently advertised in Black publications and spends about 16% of its brand dollars against Blacks, 59% of its dollars go to OOH which is primarily general market.
- In qualitative work, younger adult Blacks feel limited rapport with today's Black "leaders", e.g., Jesse Jackson.

Thus, Coolness strength among younger adult Blacks may continue to decline in the future in favor of Stylish brands which key on Black wants but also have appeal in the general market.

Hispanics

The Hispanic market is very difficult to address because:

- Mexicans, Cubans, and Puerto Ricans form three distinct segments which differ in wants, lifestyles, even language.
- Many Hispanics insist that advertising be in the Spanish language and that visual executions be perfectly attuned to their lifestyles, self image, and traditions. Hispanics are extremely literal.
- Illegal entry makes even population data difficult to obtain and tools for understanding/tracking the Hispanic market have been quite primitive compared to general market capabilities.

Mexicans are the largest and fastest growing sector of the Hispanic population and also the sector in which RJR's performance is strongest.

Percent of U.S. Hispanic Population

| | 1980 | | 2000 |
|---|---|---|---|
| Mexican | 61% | ⟶ | 64% |
| Puerto Rican | 14 | | 12 |
| Cuban | 7 | | 5 |
| Other | 18 | | 19 |

Source: Center for Continuing Study of the California Economy.



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Marlboro is the leading brand among Puerto Ricans and Cubans and recently appears to have intensified its efforts against the Mexican sector. In fact, Philip Morris appears to be increasing special market spending behind all of its key brands, with special Hispanic campaigns recently appearing for Marlboro, B&H, and Players. (See Appendix L.)

Key Points

- Blacks/Hispanics will comprise 20% of all younger adult smokers by 1990.

- Younger adult Black smokers appear to be highly responsive to effective advertising spending. They appear somewhat more likely to be attracted to a brand which keys on their interests in "moving up" and style/dress and can achieve reasonable development in the younger adult general market.

- Knowledge of the younger adult Hispanic market is extremely limited, although it is fairly clear that Mexicans are the key sector. Success among younger adult Hispanics is likely to require development of an adequate information base and extreme sensitivity to executional elements.

- Philip Morris has placed much heavier emphasis on ethnic spending in recent years and evolved ongoing Hispanic campaigns for Marlboro and Benson & Hedges.

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## YOUNGER ADULT FEMALE SMOKERS

### Opportunity Analysis

Younger adult female smokers have been a driving force behind industry growth during the last half century as they have become more likely to smoke at age 18 and, over time, spread in importance within older age brackets.

| | % IMPORTANCE AMONG 18-YEAR-OLD SMOKERS | | |
|---|---|---|---|
| | 1960's | 1970's | 1980-83 |
| Males | 62 | 53 | 51 |
| Females | 38 | 47 | 49 |

Source: 1983 SDS

Younger adult females are continuing to gain importance among younger adult smokers, due to their stronger incidence trend versus younger adult males. Based on government reports in recent years expressing alarm at increased smoking among teenage girls, younger adult females are likely to continue to slowly gain importance, although external factors such as social acceptability and price may affect the outlook.

| | INCIDENCE AMONG YOUNGER ADULTS 18-24 | | | | |
|---|---|---|---|---|---|
| | TOTAL | MALES | | FEMALES | |
| | % | % | INDEX | % | INDEX |
| 1980 | 32.7 | 33.7 | 103 | 31.7 | 97 |
| 1981 | 31.7 | 31.6 | 100 | 31.8 | 100 |
| 1982 | 29.4 | 28.8 | 98 | 30.1 | 102 |
| 1983 | 29.0 | 28.8 | 99 | 29.3 | 101 |

Source: MDB Tracker

Key differences in wants between younger adult female smokers and other smokers were identified in the 1983 SDS.

KEY WANTS/CONCERNS OF FEMALES 18-24

| | VS. TOTAL SMOKERS | VS. TOTAL 18-24 |
|---|---|---|
| Belonging/Fitting In | + | - |
| Moving Up in World | +++ | No Difference |
| Powerlessness | ++ | ++ |
| Style/Dress | +++ | +++ |
| Savings/Value | ++ | +++ |
| Health/"Tar" | + | +++ |
| New Male/Female Roles | +++ | +++ |
| Social Acceptability | + | +++ |
| Smoking Problems | + | ++ |



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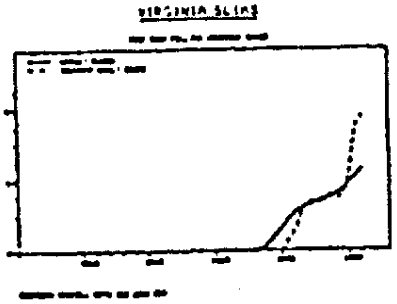
Despite key differences in wants from younger adult males, younger adult females tend to smoke dual sex brands rather than specifically targeted female brands, e.g., 34% smoke Marlboro versus 11% for Virginia Slims.

- Virginia Slims was introduced in 1968 but appears to have gained appeal as a younger adult female "first brand" only in recent years.




This may relate to its gradual campaign evolution from heavy makeup and avant garde fashions to more friendly, casual imagery. This transition may have been speeded by the introduction of SALEM Slim Lights, which outperformed all other competitors in attracting switchers from Virginia Slims.

VIRGINIA SLIMS SWITCHING AMONG FEMALE SMOKERS 18-24

| | NET GAINS | | NET LOSSES | |
|---|---|---|---|---|
| | PTS. | % | PTS. | % |
| SALEM | - | - | -.14 | 45 |
| Barclay | - | - | -.05 | 16 |
| CAMEL | - | - | -.02 | 6 |
| VANTAGE | - | - | -.02 | 6 |
| B&H | - | - | -.02 | 6 |
| Generics | - | - | -.02 | 6 |
| Marlboro | +.26 | 39 | - | - |
| Merit | +.12 | 18 | - | - |
| Newport | +.05 | 8 | - | - |
| Kent | +.05 | 8 | - | - |
| Parliament | +.05 | 8 | - | - |
| All Other | +.13 | 20 | -.04 | 15 |
| | +.66 | 100% | -.31 | 100% |

Source: NFO, 1980-83 (1st Half) Avg. Per 6 Mo.

Although base sizes are small, there is some indication that Virginia Slims younger adult core females are true Stylish segment smokers who desire to make a bold statement with their brand, whereas Virginia Slims fringe smokers consider the brand to be nearly too bold for their tastes. Its key imagery is, naturally enough, "today's woman".



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Virginia Slims weakness may be that it fits not only a particular type of female but a particular stage of life. The prototypical younger adult female Virginia Slims smoker is like its overall franchise -- she is from a family with income over $25M (BDI = 160), has some college education (BDI = 130), is employed as a secretary/clerk (BDI = 160), and is single or newly married. The drop in Virginia Slims development among married/formerly married women suggests that Virginia Slims somehow does not fit the married woman's lifestyle and thus, has limited opportunity as a lifetime brand.

VIRGINIA SLIMS DEVELOPMENT

| | TOTAL FEMALES | 18-24 FEMALES |
|---|---|---|
| Never Married | 213 | 126 |
| Married < 2 Years | 182 | 96 |
| Married 2+ Years | 77 | 77 |
| Formerly Married | 77 | 48 |
| Total BDI | 100 | 100 |
| Share | 6.0% | 10.7% |

Source: 1983 SMS, 1983 Tracker

- Most younger adult females smoke a dual sex brand -- not too masculine (e.g. CAMEL), but not strictly female (Virginia Slims). While specially targeted female brands will undoubtedly play a role in the future market, lifestyle trends suggest that commonalities between younger adult males/females are increasing over time, so that dual sex wants are likely to remain prevalent.

- Younger adult females are increasingly moving into the workplace, at a more rapid pace than older women.

LABOR FORCE PARTICIPATION (%) AGES 20-24

| | 1960 | | 1970 | | 1975 | | 1981 |
|---|---|---|---|---|---|---|---|
| Females 20-24 | 46.1 | ⟶ | 57.7 | ⟶ | 64.1 | ⟶ | 69.6 |
| Index vs. Total Females | 122 | | 127 | | 133 | | 134 |

- Younger adult females have become as likely as males to attend college.

% COLLEGE ENROLLEES 18-24

| | 1960 | | 1970 | | 1975 | | 1981 |
|---|---|---|---|---|---|---|---|
| Males | 63% | | 57% | | 53% | | 50% |
| Females | 37 | ⟶ | 43 | ⟶ | 47 | ⟶ | 50 |



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- Females are increasingly opting to remain single during their younger adult years and to live alone.

| | % WHO HAVE NEVER MARRIED | | | |
|---|---|---|---|---|
| Ages 20-24 | 1960 | 1970 | 1975 | 1981 |
| Males | 53.1 | 54.7 | 59.9 ⟶ | 69.5 |
| Females | 28.4 ⟶ | 35.8 ⟶ | 40.3 ⟶ | 51.9 |

| | YOUNGER ADULT FEMALES LIVING ALONE | | | |
|---|---|---|---|---|
| | 1960 | 1970 | 1975 | 1981 |
| Number (M) | 110 | 282 | 501 | 752 |

Source: Statistical Abstracts, 1982-83, pages 41 & 44

- Both younger adult males and females are more likly to say they "associate with the new ideas of men/women" than their older counterparts.

These increasing lifestyle commonalities suggest that females will continue to be more attracted to dual sex brands which adequately address their wants than to highly targeted female-only brands.

Key Points

- Younger adult female smokers have greatly increased in importance over the last 20 years and are likely to continue to slowly gain in importance, unless external factors intervene.
- Virginia Slims, or similar female-only brands, are likely to hold a niche in the future younger adult female market, but essentially dual sex brands which are attentive to female wants/concerns are likely to provide the larger opportunity.
- Style/dress remains a pronounced interest among younger adult females, but should be executed to provide a clear point of difference and not be "too bold".

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## "MOVING UP IN THE WORLD"

"Moving up in the world" is a key want among all groups of younger adult smokers and the one which most distinguishes them from older smokers in the FDS. This is not surprising, given that they are in the process of developing their education and/or career and establishing their independence (which requires dollars).

Dollars may well be the key measure of success to younger adult smokers, since the desire to move up decreases as their incomes increase. Blue collar workers (who are the highest earning younger adults) are less upward striving than average. Education makes no difference.

Younger adult smokers are more likely than older to emphasize the "image" of success. They like to know important people and feel "there's nothing wrong with showing you've made it," regardless of race or sex.

Over the next 10 years, younger adults' desire to "move up" may become more frustrating, since the peak of the Baby Bubble will ride just ahead of them, clogging the traditional avenues of advancement and success. This suggests that they may move to alternate paths as other "powerless" minorities have done in the past.

- Some may compensate by seeking to acquire affordable status symbols, possibly a prestige/class cigarette brand. However, it is not entirely clear that the younger adult definition of "class" will entirely mesh with the status symbols prized by the older establishment, since they seem to prefer designer jeans to couturier originals and flair/individuality above elegance. B&H, the only established "prestige" brand has attracted some interest among younger adult Blacks/Hispanics but is underdeveloped among younger adult smokers as a whole.

- One option successfully used by entrepreneurial minorities in the past is to seek fame by exercising special talents in the public eye -- women achieved visible success through the stage or screen (or by marriage), Blacks moved up through sports and music, Jews became famous on the comedy circuits, "poor boys" from Liverpool or Mississippi made it with rock and roll.

The desire to fame, the fantasy of "being discovered", and "star worship" appear to have been common among younger adults for generations in varying forms. Today's younger adults appear to be no exception:

- In qualitative work, when younger adult smokers are asked to name their heroes, they tend to name performers rather than the sports figures (e.g., Jo Dimaggio) or political leaders (John Kennedy, Martin Luther King) who may have had more attention in the past.

- The "Newsstand Weeklies" (People, National Enquirer, etc.) which key on performers, are the most-read periodicals among younger adult smokers (See Appendix M).



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Source: https://www.industrydocuments.ucsf.edu/docs/lfil0001

- The TV series "Fame" appealed to younger adults and is returning via syndication.

Music is probably the most popular mode of performance among younger adult smokers:

- A special cable network, MTV, offers nothing but video renditions of popular younger adult music.
- Younger adult smokers in the SDS were twice as likely to actively participate in musical activities (i.e., actually play or sing) as smokers 25+ were.
- Younger adults tend to associate Marlboro with the occupation of musician. This was mentioned by 21% of smokers 18-24 rating Marlboro versus 14% of all smokers, the most pronounced difference found between older/younger adult responses. This is unusual, since Marlboro's only formal association with music has been some recent special events sponsorship. This suggests that these younger adult male Marlboro users may be characterizing themselves as they are or wish to be.

Although "fame" is a concept rather than an opportunity at present, it would represent an innovative point of difference from any past/present brand and appears to be relevant to younger adult wants/interests.

Key Points

- "Moving up in the world" is a key, enduring want among younger adult smokers and is likely to become of even higher importance as avenues for traditional success are increasingly blocked by the Baby Bubble.
- Younger adults tend to emphasize the image of success rather than "self improvement".
- A "status symbol" brand may attract some younger adult smokers, as an affordable compensation for other luxury items, if it can be executed to key on younger adult definitions of "class" and achieve clear difference versus competition.
- Limited opportunity to "move up" within the establishment may lead younger adults to more entrepreneurial means of success, such as fame via the performing arts, especially music. This meshes with younger adults' key activities/interests and apparently represents an enduring want applicable to both sexes and races. Therefore it may provide an innovative new brand/repositioning opportunity, clearly different from competition.



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APPENDICES

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APPENDIX A

## NUMERICAL IMPORTANCE OF YOUNGER ADULT SMOKERS

| Ages 18-24: | 1975 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| % of Total Pop. 18+ | 18.8% | 18.5% | 18.3% | 17.9% | 17.5% |
| Incidence of Smoking: | | | | | |
| Smoker % of 18-24 Pop. | 36.0% | 32.7% | 31.7% | 29.4% | 29.0% (P) |
| Index vs. Total 18+ | 106 | 99 | 98 | 95 | 94 (P) |
| % of Smokers 18+ | 20.0% | 18.3% | 17.9% | 16.9% | 16.4% (P) |

(P) = Preliminary Tracker Data

Sources: Incidence and Rate Report, Year 1982, MDD Tracker, and Census Bureau population estimates.

| Ages 18-24 in 1988: | High Side (1) | Low Side (2) |
|---|---|---|
| % of Total Pop. 18+ | 14.9% | 14.9% |
| Incidence of Smoking: | | |
| Index vs. Total 18+ | 94 | 87 |
| % of Smokers 18+ | 14.0% | 13.0% |

(1) High Side assumes younger adult incidence follows the same trend as the total population (18+).

(2) Low Side assumes younger adult incidence falls more rapidly than among total smokers, to the average degree seen from 1975 to 1983.

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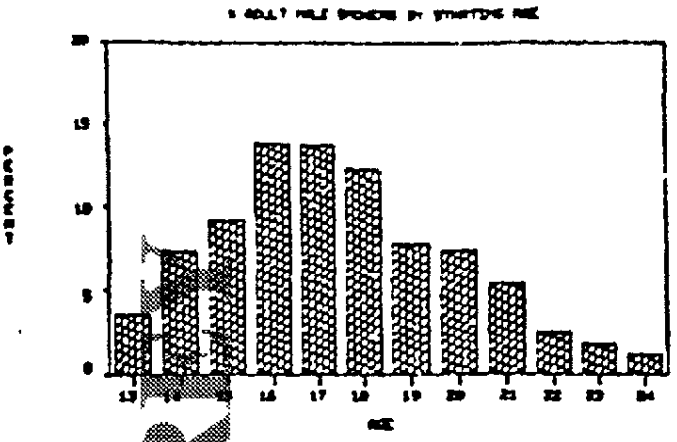
Source: http://www.tobaccodocuments.org/lesf.edu/docs/lfil0001

APPENDIX B

## YOUNGER ADULTS' IMPORTANCE AS REPLACEMENT SMOKERS



- More than two-thirds of male smokers start by age 18. Only 5% start after age 24.

### Current Male Smokers By Starting Age

| | Cumulative % | |
|---|---|---|
| | Start By Age | Start After Age |
| 12 | 9.9% | 90.1% |
| 13 | 13.4 | 86.6 |
| 14 | 20.8 | 79.2 |
| 15 | 30.3 | 69.7 |
| 16 | 42.9 | 57.1 |
| 17 | 53.6 | 46.4 |
| 18 | 68.7 | 31.3 |
| 19-20 | 84.0 | 16.0 |
| 21-24 | 94.6 | 5.4 |
| 25+ | 100.0% | |

Median = 16.7 years

Source: Average of HEW data reported in Adult Use of Tobacco, 1970 and 1975.

- Although women of the early 1900's started to smoke at later ages than men, there has been little difference in recent decades.

| Year of Birth | Median Starting Age of Female Smokers |
|---|---|
| 1900-1920 | 20.0 years |
| 1920's | 18.5 |
| 1930's | 17.7 |
| 1940's | 17.1 |

Source: HEW, Changes in Cigarette Smoking Habits, 1955-66.

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APPENDIX C

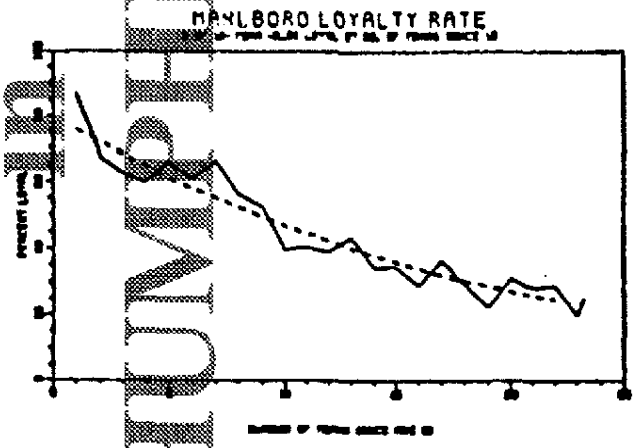
## MARLBORO SWITCHING LOSSES -- ACTUAL VS. PREDICTED

- NFO: Avg. 1980 - First Half 1983

| Age | Importance Of Age To Total Smokers * | Avg. Annual Gross Switching Loss ** Pts in Age | Wtd Pts Of Total | % Of Total |
|---|---|---|---|---|
| 18-24 | 17.2% | -1.46 | [ - .25 ] | 39% |
| 25-34 | 25.8 | - .64 | - .17 | 27 |
| 35-49 | 27.6 | - .40 | - .11 | 17 |
| 50+ | 29.4 | - .36 | - .11 | 17 |
| TOTAL | 100.0% | - .64 | - .64 | 100% |

* Source: MDD Incidence/Rate Report, Year 1982; MDD Tracker, 1st Half, 1983.
** NFO gross switching losses within age converted to total and points of total by importance weights above.

- Predicted By SDS Loyalty Rates




| Marlboro 18-Year-Olds After -- | 0 Yrs | 1 Yrs | 2 Yrs | 3 Yrs | 4 Yrs | 5 Yrs | 6 Yrs | Average |
|---|---|---|---|---|---|---|---|---|
| % Remaining Loyal | 100% | 76% | 72% | 68% | 65% | 61% | 58% | 71% |

Since 71% remain loyal, 39% must switch over the six years, i.e., an average of 6.5% per year among the average 71% of the original group who remain. 71% x 6.5% = 4.6% average annual switching loss.

| Marlboro | Average 1980-83 (1st Half) |
|---|---|
| Tracker Share Among 18-24 | 35.3% |
| Avg. Importance of 18-24 | x 17.2% |
| Value in Points of Total Smokers | 6.1% |
| Average Annual Switching Loss | x -4.6% |
| | [ -.28 ] Points |

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APPENDIX D

## RJR/PM SWITCHING VS. SMOKER SHARE PERFORMANCE

| | POINTS OF TOTAL SMOKERS | | | |
|---|---|---|---|---|
| | NET SWITCHING | | SHARE | |
| | RJR | PM | RJR | PM |
| 1980 | + .26 | + .45 | 33.3 | 29.2 |
| 1981 | + .27 | - .25 | 32.1 | 31.0 |
| 1982 | + .42 | + .24 | 32.8 | 32.3 |
| 1983 (1st Half) | +1.00E | + .36E | 33.0 | 34.2 |
| Avg. Change Per 6 Mo. | + .41 <—— | + .18 | - .1 ——> | 1.0 |

Sources: NFO and MRB Tracker

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APPENDIX E

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## EFFECTS OF AGING ON SHARE OF SMOKERS

### Method

The charts in this Appendix summarize an analysis of the relative importance of aging* and "other factors" (switching/quitting/starting) to changes in smoker share for Marlboro and Newport (menthol).

The analysis assumed that a brand's share was flat within the Tracker age brackets and simply aged its smokers year by year, within or across these age brackets. For example, in 1981, Marlboro had a 34.3% Tracker share among 18-24 and a 21.9% share among 25-34. For 1982, we would estimate that, if nothing but aging occurred, Marlboro would have a 34.3% share among those who aged from 24 to 25 and still a 21.9% share among 26-34, who did not leave their 1981 bracket. Since 25-year-olds were about 11% of all 25-34 smokers in 1982, a weighted average indicates aging would push Marlboro's share among 25-34 from 21.6% in 1981 to 23.3% in 1982, a gain of 1.4 points.

| | | | | |
|---|---|---|---|---|
| 11% | X | 34.3 | = | 3.8 points from 25 year olds |
| 89% | X | 21.9 | = | 19.5 points from 26-34 |
| 100% | | | | 23.3% share among 25-34 if only aging occurred |

Since Marlboro's Tracker* share among 25-34 in 1982 was in fact only 23.0%, we presume the differences of about .3 was due to switching/starting/quitting among 25-34's that year.

In addition to the historical analysis, possible future effects of aging were conservatively projected for the brands by assuming that younger adults would drop in importance from 16.5% of all smokers in 1982 to 13.6% by 1988. Upside and downside future trends were calculated for each brand, with and without "other effects", based on the brand's history from 1980-83 (1st half).

| | |
|---|---|
| Marlboro | D-1 |
| Newport Menthol | D-2 |

* Gains within the younger adult group were considered aging contributions.

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## EFFECTS OF AGING ON SHARE OF SMOKERS

MARLBORO

### HISTORICAL

| | | 1980 | 1981 | 1982 | 1st Half 1983 | 1980-83 Annual Avg. Chg. |
|---|---|---|---|---|---|---|
| 18-24 | SMOKER SHARE | 32.4 | 34.3 | 36.3 | 41.2 | |
| | Change vs. Yr. Ago | +1.8 | +1.9 | +2.0 | +4.9 | +2.4 |
| 25-34 | SMOKER SHARE | 20.1 | 21.9 | 23.0 | 24.9 | |
| | Change vs. Yr. Ago | +.5 | +1.8 | +1.1 | +1.9 | +1.3 |
| | Aging Effect | +1.2 | +1.3 | +1.4 | +1.4 | +1.3 |
| | Other Effects | -.7 | +.5 | -.3 | +.5 | NC |
| 35-49 | SMOKER SHARE | 11.0 | 11.4 | 12.0 | 13.3 | |
| | Change vs. Yr. Ago | +1.0 | +.4 | +.6 | +1.3 | +.8 |
| | Aging Effect | +.8 | +.7 | +1.0 | +1.0 | +.9 |
| | Other Effects | +.2 | -.3 | -.4 | +.3 | -.1 |
| 50+ | SMOKER SHARE | 5.6 | 5.8 | 5.6 | 6.3 | |
| | Change vs. Yr. Ago | +.1 | +.2 | -.2 | +.7 | +.2 |
| | Aging Effect | +.2 | +.2 | +.2 | +.2 | +.2 |
| | Other Effects | -.1 | NC | -.4 | +.5 | NC |
| TOTAL 18+ | SMOKER SHARE | 15.6 | 16.6 | 17.0 | 18.9 | |
| | Change vs. Yr. Ago | +.6 | +1.0 | +.4 | +1.9 | +.9 |
| | Aging Effect | +.7 | +.9 | +.8 | +1.5 | +.9 |
| | Other Effects | -.1 | +.1 | -.4 | +.4 | NC |

- Over the last 3 1/2 years, Marlboro has gained an average of .9 share points per year of total smokers.
- Marlboro's long-term growth is entirely attributable to its large, steady gains among younger adults. Gains in older smoker groups appear to be solely the result of aging.

### PROJECTED

- If Marlboro were to merely hold its 1983 share of younger adults and continue to be affected only by aging, its smoker share five years from now would be nearly 22%, a gain of 3 full points over the first half of 1983.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 41.2 | 41.2 | 41.2 | 41.2 |
| 25-34 | 24.9 | 26.6 | 28.1 | 32.1 |
| 35-49 | 13.3 | 14.3 | 15.4 | 18.5 |
| 50+ | 6.3 | 6.5 | 6.8 | 7.7 |
| Total | 18.9 | 19.1 | 19.8 | 21.9 |
| Other Effects (Cum.) | | NC | NC | NC |
| OVERALL | 18.9 | 19.1 | 19.8 | 21.9 |

- If Marlboro were to continue to gain among younger adults at the rate seen since 1980, it could achieve a 55% share among younger adults and a 24% share of all smokers by 1988.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 41.2 | 45.9 | 46.6 | 54.7 |
| 25-34 | 24.9 | 26.6 | 28.2 | 33.8 |
| 35-49 | 13.3 | 14.3 | 15.4 | 18.5 |
| 50+ | 6.3 | 6.5 | 6.8 | 7.7 |
| Total | 18.9 | 19.5 | 20.6 | 24.2 |
| Other Effects (Cum.) | - | - | - | - |
| OVERALL | 18.9 | 19.5 | 20.6 | 24.2 |

APPENDIX E-1

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## EFFECTS OF AGING ON SHARE OF SMOKERS

NEWPORT MENTHOL

### HISTORICAL

| | | 1980 | 1981 | 1982 | 1st Half 1983 | 1980-83 Annual Avg. Chg. |
|---|---|---|---|---|---|---|
| 18-24 | SMOKER SHARE | 6.1 | 7.0 | 7.6 | 8.5 | |
| | Change vs. Yr. Ago | +.9 | +.9 | +.6 | +.9 | +.9 |
| 25-34 | SMOKER SHARE | 1.8 | 2.5 | 2.7 | 3.3 | |
| | Change vs. Yr. Ago | +.1 | +.7 | +.2 | +.6 | +.4 |
| | Aging Effect | +.4 | +.5 | +.5 | +.5 | +.5 |
| | Other Effects | -.3 | +.2 | -.3 | +.1 | -.1 |
| 35-49 | SMOKER SHARE | .7 | .8 | .8 | 1.0 | |
| | Change vs. Yr. Ago | -.1 | +.1 | NC | +.2 | +.1 |
| | Aging Effect | +.1 | +.1 | +.2 | +.2 | +.2 |
| | Other Effects | -.2 | NC | -.2 | NC | -.1 |
| 50+ | SMOKER SHARE | .4 | .4 | .4 | .2 | |
| | Change vs. Yr. Ago | NC | NC | NC | -.2 | NC |
| | Aging Effect | NC | NC | NC | NC | NC |
| | Other Effects | NC | NC | NC | -.2 | NC |
| TOTAL 18+ | SMOKER SHARE | 1.9 | 2.2 | 2.3 | 2.6 | |
| | Change vs. Yr. Ago | +.2 | +.3 | +.1 | +.3 | +.2 |
| | Aging Effect | +.3 | +.3 | +.2 | +.2 | +.2 |
| | Other Effects | -.1 | NC | -.1 | +.1 | NC |

- Over the last four years, Newport has gained an average of .2 share points per year of total smokers.
- Newport's long-term growth is entirely attributable to its large, steady gains among younger adults. Gains in older smoker groups appear to be solely the result of aging.

### PROJECTED

If Newport were to hold its 1983 share of younger adults and continue to be affected only by aging, its total smoker share 5 years from now would be 3.4%, a gain of .8 points over 1983.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 8.5 | 8.5 | 8.5 | 8.5 |
| 25-34 | 3.3 | 3.9 | 4.4 | 5.7 |
| 35-49 | 1.0 | 1.2 | 1.4 | 2.1 |
| 50+ | .2 | .2 | .2 | .3 |
| Total | 2.6 | 2.7 | 2.8 | 3.4 |
| Other Effects (Cum.) | | NC | NC | NC |
| OVERALL | 2.6 | 2.7 | 2.8 | 3.4 |

- If Newport were to continue to gain among younger adults at the rate seen since 1980, its total smoker share could reach 4.1% by 1988.

| | 1st Half 1983 | PROJECTED 1984 | 1985 | 1988 |
|---|---|---|---|---|
| Aging Effect | | | | |
| 18-24 | 8.5 | 9.3 | 10.1 | 12.5 |
| 25-34 | 3.3 | 3.9 | 4.5 | 6.2 |
| 35-49 | 1.0 | 1.2 | 1.4 | 2.2 |
| 50+ | .2 | .2 | .2 | .3 |
| Total | 2.6 | 2.8 | 3.1 | 4.1 |
| Other Effects (Cum.) | | NC | NC | NC |
| OVERALL | 2.6 | 2.8 | 3.1 | 4.1 |

APPENDIX E-2

Produced to Federal Trade Commission pursuant to subpoena

## SOURCE OF BRAND PERCEPTIONS

- Younger adult smokers are more likely than older smokers to base brand perceptions on other people they see using the brand.

| BASIS FOR USUAL BRAND PERCEPTIONS | % of Total Smokers (2627) | | % of Smokers 18-24 (443) | Index of 18-24 Vs. Total |
|---|---|---|---|---|
| Product | 87.5% | | 88.2% | 101 |
| Advertising | 45.3 | | 43.9 | 97 |
| Package | 28.7 | | 28.7 | 100 |
| Name | 35.0 | ——→ | 41.1 | 117 |
| Other Users | 38.9 | ——→ | 49.4 | 127 |

- Younger adult smokers are especially likely to basis their imagery of Marlboro and Newport on other users.

| BASIS FOR USUAL BRAND PERCEPTIONS | KEY BRAND IMPORTANCE | | AVG. U.B. IMPORTANCE | MARL. VS. AVG. INDEX |
|---|---|---|---|---|
| MARLBORO (Base = 252) | | | | |
| Product | 83.8% | ——→ | 88.2% | (95) |
| Advertising | 48.8 | | 43.9 | 111 |
| Package | 20.9 | ——→ | 28.7 | (73) |
| Name | 43.2 | | 41.1 | 105 |
| Other Users | 58.4 | ←—— | 49.4 | 118 |
| NEWPORT (Base = 79) | | | | |
| Product | 69.3% | ——→ | 88.2% | (79) |
| Advertising | 35.0 | ——→ | 43.9 | (80) |
| Package | 20.0 | ——→ | 28.7 | (70) |
| Name | 23.7 | ——→ | 41.1 | (58) |
| Other Users | 60.5 | ←—— | 49.4 | 122 |

——→ = Significantly higher at 80% confidence level.

Source: 1983 SDS

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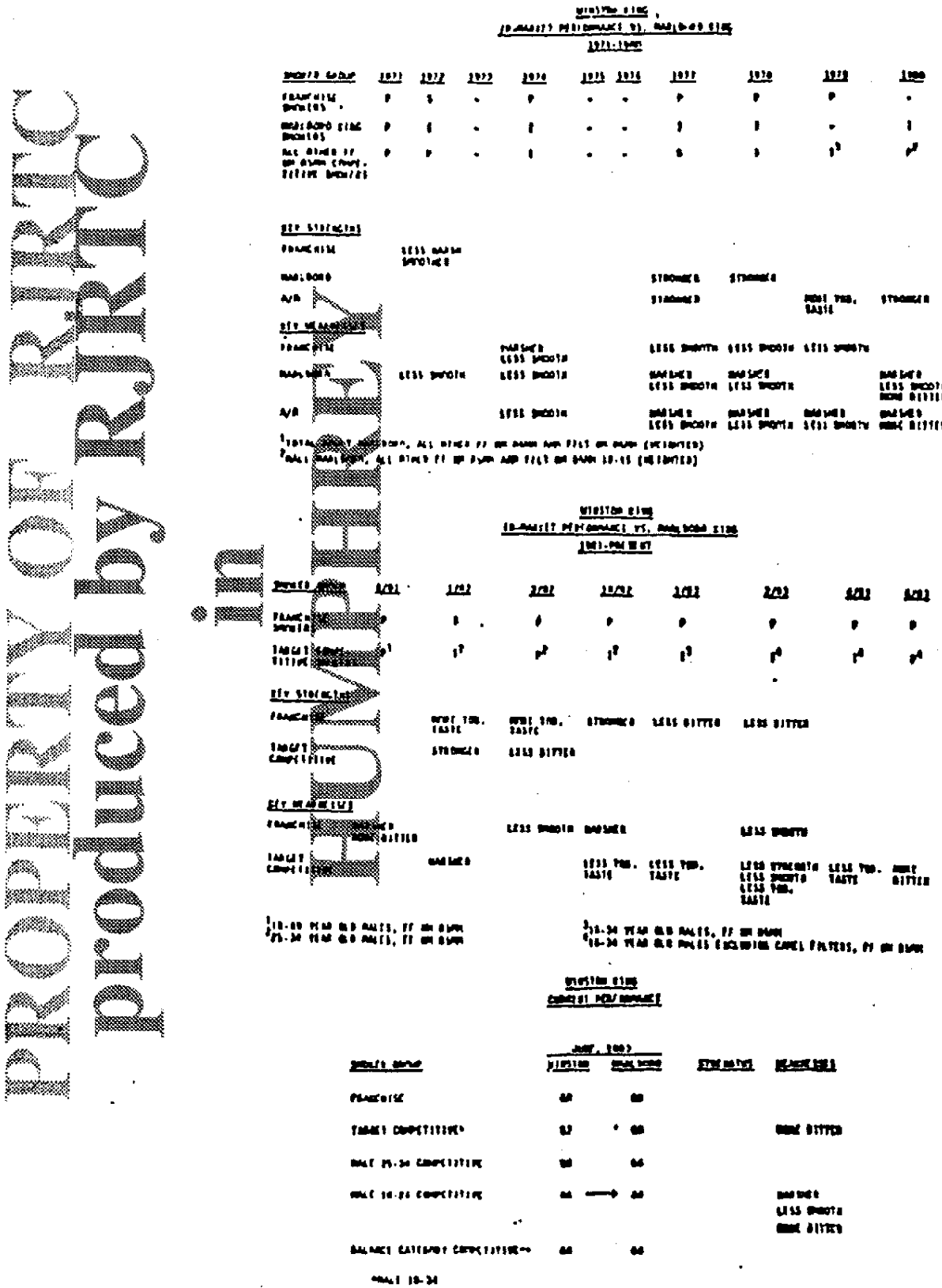
APPENDIX G



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50143 1593

APPENDIX H

## DISTRIBUTION OF MARLBORO SWITCHING LOSSES

A brand's or company's effectiveness at drawing younger adult smokers from Marlboro can be measured by:

1. The size (points) of Marlboro's switching loss to that brand/company.
2. The percentage importance of that brand/company to Marlboro's losses.
3. The brand/company percentage of Marlboro losses versus its "fair share", based on its development among smokers 18-24.

### BY COMPANY

During 1980-83 (1st half), Marlboro averaged a .36 point net switching loss every six months among younger adult smokers. Other Philip Morris brands were the beneficiaries of nearly half of Marlboro's net losses, allowing PM to keep twice its fair share of these younger adult smokers.

MARLBORO SWITCHING AMONG SMOKERS 18-24
Avg. per 6 Mo. 1980-83 (1st half)

| Marlboro Switching vs: | Net Points of 18-24 | % Importance To Marlboro Losses | | Fair Share Of Marlboro Losses |
|---|---|---|---|---|
| ATC | - .05 | 11% | | 2% |
| B&W | + .10 | --- | | 18 |
| Liggett | - .01 | 2 | | 1 |
| Lorillard | - .17 | 38 | | 15 |
| Philip Morris | - .22 | 49 | ← | 27 |
| RJR | .00 | --- | | 37 |
| TOTAL | - .36 | 100% | | 100% |

Sources: NFO, MDD Tracker

### BY BRAND

Virginia Slims and Merit were almost entirely responsible for retaining such a large proportion of younger adult Marlboro switchers within PM's corporate fold. Among RJR brands, VANTAGE was most effective at gaining 18-24 switchers from Marlboro.

MARLBORO SWITCHING AMONG SMOKERS 18-24
Avg. per 6 Mo. 1980-83 (1st half)

| Marlboro Switching vs: | Net Points of 18-24 | % Importance To Marlboro Losses | | Fair Share Of Marlboro Losses |
|---|---|---|---|---|
| Virginia Slims | - .14 | 19% | ← | 9% |
| Merit | - .07 | 10 | | 8 |
| Other PM | - .01 | 1 | | 10 |
| CAMEL | - .04 | 5 | | 5 |
| WINSTON | - .05 | 7 | | 11 |
| VANTAGE | - .09 | 12 | ← | 4 |
| Other RJR | + .18 | --- | | 17 |
| All Other Brands | - .14 | 46 | | 46 |
| TOTAL | - .36 | 100% | | 100% |

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APPENDIX I

BLACK/WHITE YOUNGER ADULT DEVELOPMENT OF KEY BRANDS, 1940-83

| | | SHARE AMONG 18-YEAR-OLDS | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1940-49 | 1950-54 | 1955-59 | 1960-64 | 1965-69 | 1970-74 | 1975-79 | 1978-83 |
| PALL MALL | Black | — | 16 | 38 | 18 | — | — | — | — |
| | White | 10 | 28 | 30 | 20 | 5 | 2 | — | — |
| | Total | 10 | 26 | 30 | 19 | 5 | 2 | — | — |
| WINSTON | Black | — | — | 6 | 38 | 49 | 9 | 5 | — |
| | White | — | — | 11 | 24 | 33 | 14 | 13 | 5 |
| | Total | — | — | 11 | 25 | 35 | 14 | 12 | 5 |
| MARLBORO | Black | — | — | — | 6 | 8 | 3 | — | — |
| | White | — | — | 3 | 12 | 21 | 48 | 44 | 56 |
| | Total | — | — | 3 | 12 | 20 | 44 | 41 | 50 |
| SALEM | Black | — | — | 9 | 8 | 8 | 15 | 27 | 15 |
| | White | — | — | 3 | 3 | 4 | 8 | 10 | 8 |
| | Total | — | — | 3 | 4 | 4 | 9 | 11 | 9 |
| KOOL | Black | 5 | — | 19 | 12 | 17 | 56 | 44 | 34 |
| | White | 1 | 2 | 1 | 2 | 4 | 11 | 11 | 5 |
| | Total | 1 | 1 | 3 | 3 | 6 | 14 | 15 | 8 |
| NEWPORT | Black | — | — | — | — | 1 | 5 | 15 | 33 |
| | White | — | — | 1 | 2 | 3 | — | 6 | 9 |
| | Total | — | — | 1 | 1 | 3 | 1 | 7 | 11 |

Source: 1983 Segment Description Study

APPENDIX I

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ETHNIC SPENDING
($ in 1,000's)

| | SALEM | | | | Kool | | | | Newport | | | | SEGMENT | INDUSTRY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | $ |
| 1970 | 32.5 | 0.1 | 2.4 | 0.9 | 779.8 | 3.8 | 58.8 | 22.8 | 514.6 | 16.1 | 38.8 | 15.1 | 1,326.7 | 3,416.9 |
| 1971 | 725.0 | 5.5 | 55.7 | 22.7 | 576.0 | 2.7 | 44.3 | 18.0 | 0 | 0 | 0 | 0 | 1,301.0 | 3,198.3 |
| 1972 | 938.1 | 4.9 | 74.2 | 25.9 | 325.5 | 1.7 | 25.8 | 9.0 | 0 | 0 | 0 | 0 | 1,265.6 | 3,625.9 |
| 1973 | 1,109.0 | 5.5 | 55.0 | 24.3 | 908.0 | 5.5 | 45.0 | 19.9 | 0 | 0 | 0 | 0 | 2,017.0 | 4,564.0 |
| 1974 | 1,555.0 | 7.3 | 49.5 | 23.1 | 1,484.0 | 7.2 | 47.3 | 22.0 | 100.0 | 1.6 | 3.2 | 1.5 | 3,139.0 | 6,744.0 |
| 1975 | 1,776.0 | 8.3 | 40.3 | 19.0 | 2,427.1 | 10.8 | 55.0 | 26.0 | 207.4 | 3.0 | 4.7 | 2.2 | 4,410.5 | 9,349.9 |
| 1976 | 1,530.0 | 5.9 | 39.1 | 20.2 | 2,200.0 | 8.9 | 56.3 | 29.1 | 180.0 | 2.8 | 4.6 | 2.4 | 3,910.0 | 7,565.0 |
| 1977 | 1,405.0 | 5.6 | 46.1 | 16.9 | 1,335.0 | 4.1 | 43.8 | 16.1 | 310.0 | 2.9 | 10.2 | 3.7 | 3,050.0 | 8,310.0 |
| 1978 | 1,670.0 | 5.7 | 51.1 | 20.4 | 1,210.0 | 4.1 | 37.0 | 14.8 | 390.0 | 4.1 | 11.9 | 4.8 | 3,270.0 | 8,180.0 |
| 1979 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| 1980 | 2,589.4 | 3.7 | 39.0 | 25.3 | 2,629.5 | 9.1 | 39.6 | 25.7 | 1,422.0 | 11.6 | 21.4 | 13.9 | 6,640.9 | 10,228.3 |
| 1981 | 2,199.9 | 4.2 | 46.7 | 21.8 | 1,300.9 | 8.3 | 27.6 | 12.9 | 1,210.7 | 5.3 | 25.7 | 12.0 | 4,711.5 | 10,111.8 |
| 1982 | 4,491.3 | 6.0 | 39.7 | 17.6 | 4,176.1 | 6.0 | 36.9 | 16.8 | 2,657.3 | 14.9 | 23.5 | 10.4 | 11,324.7 | 25,498.8 |
| 1983 (Oct. YTD) | 4,804.1 | 9.2 | 39.9 | 13.7 | 4,145.9 | 9.4 | 34.4 | 11.8 | 3,095.6 | 15.9 | 25.7 | 8.8 | 12,045.6 | 35,004.0 |

HUMPHREY

NOTE: Newport spending was essentially confined to North Atlantic/North Central Area until approximately 1981.

APPENDIX J

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OUT-OF-HOME SPENDING
($ IN 1,000'S)

| | SALEM | | | | Kool | | | | Newport | | | | SEGMENT | INDUSTRY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | % Tot Brnd $ | % Segm $ | % Ind $ | $ | $ |
| 1970* | 784.0 | 5.5 | 60.6 | 9.6 | 274.0 | 1.3 | 21.2 | 33.6 | 236.4 | 7.4 | 18.3 | 2.9 | 1,294.4 | 8,151.4 |
| 1971* | 5,754.0 | 43.5 | 41.5 | 9.1 | 7,111.2 | 33.6 | 51.2 | 11.3 | 1,010.8 | 84.6 | 7.3 | 1.6 | 13,876.0 | 62,898.9 |
| 1972* | 6,101.0 | 31.9 | 38.7 | 9.6 | 7,916.4 | 40.7 | 50.3 | 12.5 | 5,735.7 | 45.2 | 11.0 | 2.7 | 15,751.1 | 63,542.6 |
| 1973 | 7,276.0 | 35.8 | 43.6 | 11.2 | 7,541.0 | 45.5 | 45.2 | 11.6 | 1,873.0 | 47.5 | 11.2 | 2.9 | 16,690.0 | 64,964.0 |
| 1974 | 7,707.0 | 36.1 | 38.7 | 10.9 | 8,752.0 | 42.6 | 43.9 | 12.3 | 3,474.0 | 55.9 | 17.4 | 4.9 | 19,933.0 | 71,015.0 |
| 1975 | 8,555.0 | 39.8 | 42.8 | 11.1 | 8,953.0 | 39.8 | 44.7 | 11.7 | 2,499.4 | 36.7 | 12.5 | 3.3 | 20,007.4 | 76,800.4 |
| 1976 | 10,310.0 | 39.9 | 52.7 | 10.3 | 8,960.0 | 36.2 | 45.8 | 8.9 | 2,910.0 | 45.2 | 1.5 | 2.9 | 19,560.0 | 100,160.0 |
| 1977 | 9,740.0 | 39.1 | 41.5 | 8.0 | 8,695.0 | 26.8 | 37.0 | 7.1 | 5,050.0 | 47.1 | 21.5 | 4.1 | 23,485.0 | 121,850.0 |
| 1978 | 6,350.0 | 21.7 | 25.4 | 4.5 | 13,665.0 | 46.6 | 54.8 | 9.7 | 4,940.0 | 52.1 | 19.8 | 3.5 | 24,955.0 | 140,950.0 |
| 1979 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| 1980 | 15,296.8 | 22.0 | 45.7 | 9.1 | 12,458.0 | 42.9 | 37.2 | 7.4 | 5,744.3 | 46.9 | 17.1 | 3.4 | 33,499.1 | 168,223.4 |
| 1981 | 18,624.2 | 34.8 | 55.2 | 8.9 | 2,943.8 | 18.9 | 8.7 | 1.4 | 12,141.9 | 52.7 | 36.0 | 5.8 | 33,709.9 | 208,457.2 |
| 1982 | 17,095.6 | 22.7 | 35.2 | 7.1 | 20,619.9 | 29.5 | 42.4 | 8.5 | 10,900.8 | 61.3 | 22.4 | 4.5 | 48,616.3 | 241,198.8 |
| 1983 (Oct. YTD) | 16,954.2 | 51.6 | 37.7 | 7.4 | 15,932.5 | 36.0 | 36.2 | 7.1 | 11,473.2 | 58.9 | 26.1 | 5.1 | 43,959.9 | 224,115.4 |

NOTE: Newport spending was essentially confined to North Atlantic/North Central Area until approximately 1981.

* Denotes "Outdoor" only.

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APPENDIX J

RH0003849

APPENDIX K

## NEWPORT VS. KOOL PRODUCT

Competitive product test results showed Newport King and Kool King to be at parity on overall 7+ ratings among full flavor menthol smokers ages 18-24 in 1982. However, Newport was significantly more mild/smooth and less strong/harsh than Kool.

| | KOOL (192) | | NEWPORT (163) |
|---|---|---|---|
| (Base Size) | | | |
| Overall %70+ Rating | 51.6 | | 56.4 |
| **Attributes** | | | |
| More satisfying | 4.16 | | 4.33 |
| Stronger | 4.11 | ← | 3.79* |
| More harsh | 3.66* | ← | 3.07* |
| Smoother | 3.91* | → | 4.40* |
| Milder | 3.88 | → | 4.17 |
| More tobacco taste | 3.96 | | 3.71* |
| More tobacco than menthol | 3.96* | | 3.95* |
| More menthol | 4.16* | ← | 3.86* |
| Cooler | 3.84* | | 3.83* |
| Less good aftertaste | 4.03 | ← | 3.67 |
| Artificial tasting | 3.94 | | 3.77 |
| Bitter tasting | 3.58 | ← | 2.95 |
| Easier draw | 4.80 | | 4.87 |
| Burns faster | 4.04* | ← | 3.81* |

**Interpretation Note:**

The arrow indicates a significant difference between the two products with the arrow pointing towards the product which is more in agreement with the attribute on the left. An asterisk indicates a significant difference versus the ideal.

Source: MDD 82-21223, 82-21230

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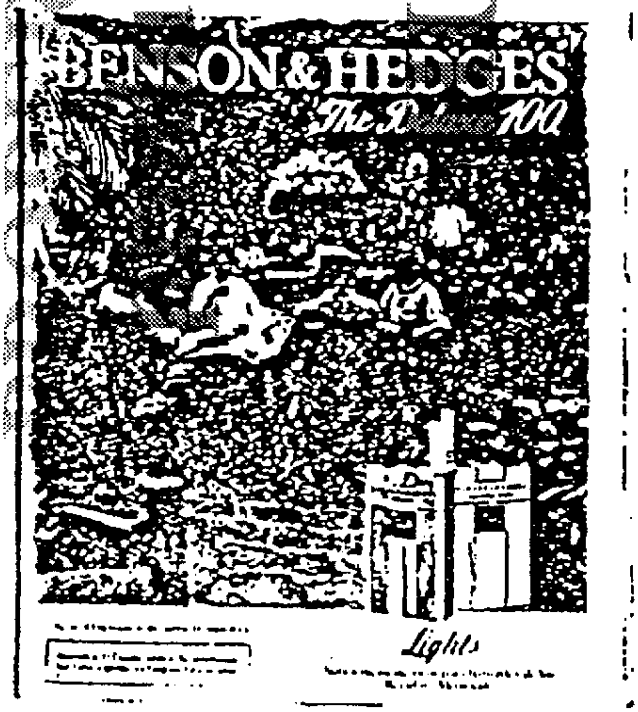
APPENDIX L

PHILIP MORRIS SPECIAL MARKET PROGRAMS




ETHNIC SPENDING ($M)

| | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|
| Marlboro | 28 | 31 | 1028 | 1127 |
| B&H | 618 | 821 | 2653 | 2888 |
| V. Slims | 523 | 588 | 2340 | 1945 |

Source: Media Department

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CLAIMED READERSHIP AMONG 18-24 YEAR OLD SMOKERS

| MAGAZINES | TOTAL REACH (%) | TOTAL EFFICIENCY * VS. TOT. 18+ | MALE REACH (%) | MALE EFFICIENCY * VS. MALE 18+ | FEMALE REACH (%) | FEMALE EFFICIENCY * VS. FEM. 18+ | WHITE REACH (%) | WHITE EFFICIENCY * VS. WHITE 18+ | BLACK REACH (%) | BLACK EFFICIENCY * VS. BLACK 18+ |
|---|---|---|---|---|---|---|---|---|---|---|
| Newsstand Weekly | 73 | 104 | 64 | 100 | 81 | 107 | 73 | 106 | 74 | 96 |
| Men's General | 44 | 135 | 66 | 137 | 23 | 146 | 43 | 142 | 48 | 117 |
| News Weeklies | 40 | 83 | 41 | 78 | 38 | 90 | 39 | 82 | 44 | 87 |
| Selective Female | 39 | 132 | 11 | 76 | 69 | 143 | 37 | 144 | 42 | 98 |
| Reader Sports | 38 | 121 | 54 | 120 | 19 | 135 | 36 | 124 | 49 | 113 |
| Women's General | 38 | 78 | 8 | 39 | 65 | 89 | 37 | 80 | 43 | 87 |
| Hunt/Fish/Outdoors | 34 | 111 | 47 | 107 | 20 | 136 | 35 | 114 | 32 | 102 |
| Automotive | 33 | 160 | 54 | 166 | 13 | 168 | 34 | 169 | 24 | 113 |
| Shelter | 32 | 72 | 16 | 50 | 47 | 82 | 28 | 67 | 49 | 91 |
| General | 29 | 89 | 27 | 79 | 31 | 100 | 25 | 84 | 46 | 103 |
| Fashion | 24 | 149 | 6 | 109 | 41 | 150 | 21 | 151 | 36 | 144 |
| Mechanical | 21 | 92 | 35 | 92 | 9 | 114 | 20 | 86 | 19 | 109 |
| Black | 19 | 123 | 15 | 103 | 24 | 139 | 3 | 143 | 88 | 108 |
| Literary | 16 | 111 | 19 | 107 | 13 | 122 | 15 | 120 | 20 | 85 |
| How To | 15 | 62 | 8 | 47 | 22 | 69 | 16 | 61 | 17 | 78 |
| Participant Sports | 15 | 92 | 16 | 72 | 13 | 144 | 14 | 85 | 17 | 112 |
| Business/Finance | 15 | 73 | 17 | 67 | 12 | 86 | 12 | 61 | 23 | 97 |
| Epicurean | 9 | 64 | 4 | 40 | 13 | 75 | 8 | 59 | 12 | 90 |

HUMPHREY

* Index of readership among 18-24 group vs. indicated smoker total.

[ ] = Top 4 magazine categories based on Reach X Efficiency.

Source: 1983 Segment Description Study

APPENDIX N

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APPENDIX N

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## YOUNGER ADULT TARGET DEFINITION AIDS

The charts in this Appendix summarize demographic differences within the younger adult smoker population which may be relevant to brand target definition.

For selected brands, the tables provide:

- Brand share/development by sex, education, race, and sex within race (from MDD Trackers, Year 1983). Share and development by income level and for education within race/sex have been approximated by applying the relative development found in the 1983 SDS to the overall development shown on Trackers.

- Opportunity/Vulnerability Indices by demos, from the 1983 SDS.

  - The Vulnerability Indices reflect the proportion of the brand's franchise (in that demo) which are not core smokers of the brand and would therefore be relatively open to competitive appeals.

  - The Opportunity Indices reflect the extent to which the brand might further capitalize on positive smoker attitudes (within the demo) by drawing more of its fringe into its franchise.

- Both indices are relative to the Opportunity/Vulnerability of the average brand in the total market.

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NEWPORT

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 2.8% | -- | 93 | 116 |
| TOTAL SMOKERS 18-24 | 8.9 | 100 | 74 | 89 |
| Black | 36.4 | 409 | 57 | 109 |
| White/Other | 5.3 | 60 | 88 | 78 |
| Male | 7.6 | 85 | 80 | 103 |
| Female | 10.2 | 115 | 69 | 78 |
| Beyond H.S. | 8.4 | 94 | 50 | 80 |
| H.S. or Less | 9.2 | 103 | 89 | 96 |
| Under $15M | 10.5 | 118 | 86 | 85 |
| Over $15M | 7.8 | 88 | 59 | 101 |
| Black 18-24* | | | | |
| Male | 35.8 | 402 | 59 | 131 |
| Female | 36.9 | 415 | 55 | 88 |
| Beyond H.S. | 48.6 | 546 | 45 | 80 |
| H.S. or Less | 30.6 | 344 | 67 | 134 |
| Under $15M | 33.9 | 381 | 80 | 98 |
| Over $15M | 44.2 | 497 | 18 | 122 |
| White 18-24 | | | | |
| Male | 4.3 | 48 | 102 | 88 |
| Female | 6.4 | 72 | 77 | 71 |

* Small base size.

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KOOL

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 6.6% | -- | 89 | 88 |
| TOTAL SMOKERS 18-24 | 6.7 | 100 | 83 | 94 |
| Black | 21.8 | 325 | 63 | 99 |
| White/Other | 4.7 | 70 | 95 | 87 |
| Male | 6.7 | 100 | 63 | 124 |
| Female | 6.7 | 100 | 99 | 63 |
| Beyond H.S. | 4.0 | 60 | 95 | 88 |
| H.S. or Less | 7.8 | 116 | 77 | 97 |
| Under $15M | 8.3 | 124 | 83 | 110 |
| Over $15M | 4.4 | 66 | 82 | 77 |
| **Black 18-24** | | | | |
| Male | 24.1 | 360 | 58 | 110 |
| Female | 19.9 | 297 | 69 | 84 |
| Beyond H.S. | 17.3 | 259 | 59 | 126 |
| H.S. or Less | 25.1 | 375 | 65 | 88 |
| Under $15M | 28.8 | 429 | 50 | 124 |
| Over $15M | 12.1 | 181 | 100 | 22 |
| **White 18-24** | | | | |
| Male | 4.7 | 70 | 66 | 133 |
| Female | 4.8 | 72 | 115 | 38 |

* Small base size.

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APPENDIX N

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MARLBORO

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 28.9% | -- | 77 | 97 |
| TOTAL SMOKERS 18-24 | 41.2 | 100 | 42 | 112 |
| Black | 6.1 | 15 | 163 | 95 |
| White/Other | 45.8 | 111 | 43 | 113 |
| Male | 49.0 | 119 | 44 | 121 |
| Female | 33.5 | 81 | 39 | 100 |
| Beyond H.S. | 33.9 | 82 | 42 | 127 |
| H.S. or Less | 44.2 | 107 | 40 | 103 |
| Under $15M | 41.6 | 101 | 44 | 130 |
| Over $15M | 41.2 | 100 | 40 | 96 |
| **Males 18-24** | | | | |
| Black | 11.3 | 27 | 219 | 189 |
| White/Other | 53.5 | 130 | 45 | 126 |
| Beyond H.S. | 48.3 | 117 | 43 | 149 |
| H.S. or Less | 50.3 | 122 | 41 | 106 |
| Under $15M | 53.1 | 129 | 41 | 133 |
| Over $15M | 45.5 | 110 | 49 | 105 |
| **Females 18-24** | | | | |
| Black | 1.8 | 4 | 113* | 95* |
| White/Other | 38.0 | 92 | 39 | 96 |
| Beyond H.S. | 32.5 | 79 | 41 | 99 |
| H.S. or Less | 33.7 | 82 | 38 | 98 |
| Under $15M | 30.7 | 75 | 48 | 125 |
| Over $15M | 36.6 | 89 | 28 | 85 |

* Small base size.

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RH0003857

APPENDIX N

CAMEL

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 4.5% | -- | 101 | 99 |
| TOTAL SMOKERS 18-24 | 3.8 | 100 | 123 | 138 |
| Black | .8 | 21 | * | * |
| White/Other | 4.2 | 111 | 123 | 138 |
| Male | 6.2 | 163 | 121 | 162 |
| Female | 1.4 | 37 | 134 | 0 |
| Beyond H.S. | 4.8 | 126 | 65 | 145 |
| H.S. or Less | 3.4 | 89 | 161 | 126 |
| Under $15M | 5.1* | 133* | 109* | 109* |
| Over $15M | 2.0* | 75* | 140* | 189* |

* Small base size.

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## VIRGINIA SLIMS

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 3.0% | -- | 116 | 82 |
| TOTAL SMOKERS 18-24 | 5.4 | 100 | 117 | 94 |
| Black | 3.5 | 65 | 153 | 108 |
| White/Other | 5.7 | 106 | 115 | 88 |
| Male | .1 | 2 | * | * |
| Female | 10.7 | 198 | 117 | 94 |
| Beyond H.S. | 7.3 | 135 | 103 | 93 |
| H.S. or Less | 4.6 | 85 | 128 | 94 |
| Under $15M | 4.8 | 88 | 111 | 77 |
| Over $15M | 5.8 | 108 | 119 | 109 |
| Female 18-24 | | | | |
| Black | 6.0 | 111 | 153 | 108 |
| White/Other | 11.4 | 211 | 115 | 88 |
| Beyond H.S. | 13.7 | 254 | 103 | 93 |
| H.S. or Less | 8.8 | 163 | 128 | 94 |
| Under $15M | 9.3 | 173 | 111 | 77 |
| Over $15M | 12.3 | 227 | 119 | 109 |

* Small base size.

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APPENDIX N

VANTAGE

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 3.9% | -- | 110 | 101 |
| TOTAL SMOKERS 18-24 | 2.4 | 100 | 147 | 129 |
| Black | .5* | 21* | * | * |
| White/Other | 2.7 | 113 | 148 | 128 |
| Male | 2.7 | 113 | 150 | 189 |
| Female | 2.2 | 92 | 143 | 47 |
| Beyond H.S. | 3.3 | 138 | 167 | 95 |
| H.S. or Less | 2.1 | 88 | 132 | 141 |
| Under $15M | .9* | 36* | 136* | 24* |
| Over $15M | 4.1* | 171* | 111* | 160* |

* Small base size.

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MERIT

| | USUAL BRAND SMOKERS Share In Demo. | Development Index | OPPORTUNITY INDEX | VULNERABILITY INDEX |
|---|---|---|---|---|
| Total Smokers 18+ | 4.9% | -- | 94 | 101 |
| TOTAL SMOKERS 18-24 | 4.8 | 100 | 129 | 93 |
| Black | .5 | 10 | * | * |
| White/Other | 5.4 | 113 | 128 | 92 |
| Male | 5.0 | 104 | 141 | 91 |
| Female | 4.6 | 96 | 113 | 95 |
| Beyond H.S. | 7.6 | 158 | 140 | 88 |
| H.S. or Less | 3.6 | 75 | 128 | 91 |
| Under $15M | 4.1* | 84* | 142* | 108* |
| Over $15M | 4.9* | 102* | 127* | 91* |

* Small base size.

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March 30, 1984

To: Mr. J. R. Moore
Mr. E. J. Fackelman
Ms. E. N. Monahan
Dr. J. L. Gamma

From: L. W. Hall, Jr.

Re: YOUNGER ADULT SMOKER REPORT

Mr. Long again emphasized to me that we should very tightly restrict distribution on this report.

Therefore, I suggest we make no more copies, that MDD Group Managers and Managers with a need to know read your copies, and that Marketing Department personnel below Director level read the copies already given to the Marketing Directors.

L. W. Hall, Jr.

LWH:gj

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# MDIC

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CONSUMER RESEARCH PROPOSAL
(MDD #84-44303)

TITLE: YANKELOVICH SMOKER DATA

BACKGROUND/PURPOSE: The Strategic Research group has recently learned that Yankelovich has the capability of producing custom runs from their Monitor data, including:

- Data reflecting only respondents who are smokers.
- Additional demographic detail/crosstabs.
- Trends within smoker demos (1979-83).

This project would provide RJR with detailed trend data to assist in developing further insights into the lifestyles and values of key smoker groups, including younger adult smokers.

ACTION TO BE TAKEN: The Monitor data are expected to form the basis of a Strategic Research report on values-based growth sectors within younger adult smokers and, potentially, other key smoker groups. Data on younger adult smokers will also be forwarded to New Brands, who have indicated that results may be useful on Projects DB and YAX.

METHODOLOGY: Data will be tabbed for 48 Monitor "social trends" (1979-83), 19 specific attitude questions (1980-83) across 40 demographic cells. Listing of items (stubs) and banners for the tab plan are attached.

SUPPLIER: Yankelovich, Skelly and White.

COST: $3,200 ($1,400 for trends; $1,800 for specific attitudes)

TIMING: "Social Trend" tabs w/o 4/23.
Specific attitude tabs w/o 5/7.

CONCURRENCE:

| | Initials | Date |
|---|---|---|
| D. S. Burrows | DSB | 4/2/84 |
| R. C. Nordine | RCN | 4/2/84 (Funds Available in Futures Budget), |
| E. J. Fackelman | EJF | 4/2/84 |

SIGNED DISTRIBUTION LIST:

R. J. Harden
L. Kimmer
MDIC

84-44303

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## THE 48 SOCIAL TRENDS COVERED IN MONITOR 1983

(Listed according to trend number)

| | | ALSO MEASURED IN MONITOR | | | |
|---|---|---|---|---|---|
| | | 1979 | 1980 | 1981 | 1982 |
| 1 | Personalization | x | x | x | x |
| 1a | Social Pluralism | x | x | x | x |
| 2 | Physical Self-Enhancement | x | x | x | x |
| 3 | Physical Fitness and Well-Being | x | x | x | x |
| 3a | Concern About Mental Well-Being | x | x | x | x |
| 3b | Future Health Orientation | | | | x |
| 4 | Social/Cultural Self-Expression | x | x | x | x |
| 4a | Conspicuous Consumption | x | x | x | x |
| 5 | Personal Creativity | x | x | x | x |
| 6 | Defocus on Money | x | x | x | x |
| 6a | Toward Inner-Direction | x | x | x | x |
| 7 | Meaningful Work | x | x | x | x |
| 8a | Resistance to Science | x | x | x | x |
| 10 | New Romanticism | x | x | x | x |
| 11 | Disaffection | x | x | x | x |
| 12 | Novelty and Change | x | x | x | x |
| 13 | Return to Nature | x | x | x | x |
| 16 | Anti-Bigness | x | x | x | x |
| 20 | Living for Today | x | x | x | x |
| 21 | Hedonism | x | x | x | x |
| 22 | Away From Self-Improvement | x | x | x | x |
| 24 | Liberal Sex Attitudes | x | x | x | x |
| 25 | Blurring of Sex Roles | x | x | x | x |
| 26 | Acceptance of Drugs | x | x | x | x |
| 27 | Anti-Hypocrisy | x | x | x | x |
| 28 | Rejection of Authority | x | x | x | x |
| 29 | Tolerance for Chaos and Disorder | x | x | x | x |
| 30 | Female Careerism | x | x | x | x |
| 31 | Away From Familism | x | x | x | x |
| 31a | Need for Depersonalized Social Relationships | x | x | x | x |
| 32 | Concern About Environment | x | x | x | x |
| 33 | Concern About Privacy | x | x | x | x |
| 34 | The New Cynicism | x | x | x | x |
| 36 | Search for Community | | x | x | x |
| 36a | Ethnic Orientation | | | x | x |
| 37 | Concern About Personal Safety | x | x | x | x |
| 38 | Acceptance of Purposelessness | x | x | x | x |
| 39 | Defocus on Youth | x | x | x | x |
| 41 | Erosion of the Psychology of Affluence | x | x | x | x |
| 42 | Reinstatement of the Social Contract | x | x | x | x |
| 43 | Need for Ideological Orientation | x | x | x | x |
| 44 | Flirtation With Danger | x | x | x | x |
| 45 | Simplification Through Technology | x | x | x | x |
| 46 | Commitment to Buy American | x | x | x | x |
| 47 | Responsiveness to Fantasy | | x | x | x |
| 48 | Need for Self Sufficiency | | | x | x |
| 49 | Hunger for Personal Feedback | | | x | x |
| 50 | Toward Divisiveness | | | x | x |

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YANKELOVICH MONITOR

SELECTED "TREND MANIFESTATION" DATA

| | | MEASURED IN MONITOR | | | |
|---|---|---|---|---|---|
| | | 1980 | 1981 | 1982 | 1983 |
| **CIGARETTE SPECIFIC DATA** | | | | | |
| 26.1 | Cigt. Usage "For Enjoyment" | x | x | x | |
| 12.2 | Seeking New Cigt. Brands | x | x | x | |
| 26.5 | Attitude Toward "Low Tar" | x | x | x | |
| 26.2 | Acceptability of Smoking | x | x | x | |
| 3/3a.1 | Smoking as Fitness Concern | x | x | x | |
| 32.1 | Attitude Toward Smoking Restrictions | x | x | x | |
| 16.8 | Generic Cigt. Interest | | | x | |
| **PRICE/PROMOTION** | | | | | |
| 20/21.13 | Receptivity to Promotions | x | x | x | |
| 20/21.12 | Shopping/Price Practices to Economize | x | x | x | |
| 16.8 | Generic Product Interest | x | x | x | |
| **LIFESTYLE/VALUES** | | | | | |
| 31/31a.4 | Reasons For being Single | x | x | x | |
| 28.2 | Confidence in Authority Figures | | | | |
| 47.1 | Interest in the Imaginary | x | x | x | |
| 3/3a.10 | Methods of Forgetting Concerns | x | x | x | |
| 36/36a.1 | Means of Socializing | x | x | x | |
| 31/31a.6 | How Avoid Socializing | x | x | x | |
| 22.1/22.2 | Value of College vs. Vocation | x | x | x | |
| 12.4 | How Find New Styles | x | x | x | |
| 12.5 | How Find New Entertainment | | x | x | |
| 36/36a.2 | Ethnic Identification | | | | |

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TAB PLAN

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| TOTAL 18-20 | | SMOKERS 18-20 | | 21-24 | | 25-34 | | 18+ | | ATTENDING/ATTENDED/GRADUATED COLLEGE TOTAL 18-24 | 25-34 | 18+ | SMOKERS 18-24 | 25-34 | 18+ | SMOKERS 18-24 ATTENDING COLLEGE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| M | F | M | F | M | F | M | F | M | F | M | F | | | M | F | | |

| INCOME $0-14,999 TOTAL | | | SMOKERS | | | $15,000-24,999 TOTAL | | | SMOKERS | | | $25,000+ TOTAL | | | SMOKERS | | | BLACK 18-24 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 18-24 | 25-34 | 18+ | 18-24 | 25-34 | 18+ | 18-24 | 25-34 | 18+ | 18-24 | 25-34 | 18+ | 18-24 | 25-34 | 18+ | 18-24 | 25-34 | 18+ | TOTAL | SMOKERS |

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YOUNGER ADULT SMOKER ANALYSIS

PLAINTIFF'S EXHIBIT 27

CX-657

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Purpose of the Analysis

I. Demonstrate the Importance of Younger Adult Smokers

II. Identify Key Elements of Successful Younger Adult Strategies

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IMPORTANCE OF YOUNGER ADULT SMOKERS

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- By 1988, younger adults (18-24) will drop from 18% to 15% of the total adult population (18+).
- Population shifts in combination with declining incidence will cause the percentage of younger adult smokers to fall from 16% to 14% of all smokers by 1988.

## NUMERICAL IMPORTANCE OF YOUNGER ADULT SMOKERS

| | 1975 | 1980 | 1983 | 1988 |
|---|---|---|---|---|
| % of Total Pop. 18+ | 18.8% | 18.5% | 17.5% | 14.9% |
| % of Smokers 18+ | 20.0% | 18.3% | 16.4% | 14.0% |

- Why then will Younger Adult Smokers continue to be important to the Tobacco Industry and RJR?

---

Sources: 1982 Incidence and Rate Report, MRCA Tracker, and Census Bureau population estimates.

MONTGOMERY et al. v. RJR et al. DOCKET No. 9285
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- YOUNGER ADULT SMOKERS ARE THE ONLY SOURCE OF REPLACEMENT SMOKERS. TODAY'S YOUNGER ADULT SMOKING BEHAVIOR WILL DETERMINE THE FUTURE TREND OF INDUSTRY VOLUME.
- LESS THAN 31% OF SMOKERS START AFTER AGE 18. ONLY 5% START AFTER AGE 24.

CURRENT MALE SMOKERS BY STARTING AGE
CUMULATIVE %

| | START BY AGE | START AFTER AGE |
|---|---|---|
| 18 | 68.7 | 31.3 |
| 19-20 | 84.0 | 16.0 |
| 21-24 | 94.6 | 5.4 |
| 25+ | 100.0% | -- |

Sources: Average of HEW data reported in Adult Use, Inc., 1974 and 1975.

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- YOUNGER ADULT SMOKERS PROVIDE A "FIRST BRAND" ADVANTAGE

  -- THE 18 YEAR OLD SMOKERS IN THE 1983 MARKET WERE WORTH ABOUT 1.6 SHARE POINTS OF TOTAL SMOKERS.

  -- THE STEADY INFLUX OF 18-YEAR-OLD SMOKERS CAUSES THE PRE-EXISTING MARKET TO SHRINK IN SHARE VALUE. ANY BRAND WHICH IS UNDERDEVELOPED AMONG 18-YEAR-OLD SMOKERS MUST ACHIEVE NET SWITCHING GAINS JUST TO BREAK EVEN.

  -- "FIRST BRANDS" DO NOT NEED SWITCHING GAINS TO GROW AND CAN AFFORD SOME SWITCHING LOSSES. BY CAPTURING 50% OF 18 YEAR OLD SMOKERS, MARLBORO GAINED .8 SHARE OF SMOKER POINTS IN 1983 WITHOUT NEEDING TO ATTRACT A SINGLE BRAND SWITCHER.

---

Highest switching occurs between ages 18-24. For example, Marlboro loses 42% of brand users in this 6 years, yet this still nets the brand +.5 share of smoker points. (.8 x .58)

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- AS A RESULT OF BRAND LOYALTY AND THE AGING PROCESS, STRENGTH AMONG YOUNGER ADULT SMOKERS ULTIMATELY YIELDS GROWTH IN OLDER AGE BRACKETS.
  - -- AMONG SMOKERS 25+, ALL MARLBORO'S GAINS ARE ATTRIBUTABLE TO THE BRAND LOYALTY/AGING PROCESS--SWITCHING APPEARS TO HAVE HAD NO NET LONG-TERM EFFECT.
  - -- MARLBORO'S TOTAL SHARE IS A RESULT OF INITIAL YOUNGER ADULT SMOKER STRENGTH.
  - -- IF MARLBORO JUST HOLDS SHARE OF YOUNGER ADULT SMOKERS, THEN ITS TOTAL SHARE WILL GROW TO 24.0 DUE TO AGING.

| | | 1980 | 1981 | 1982 | 1ST HALF 1983 | 1988 |
|---|---|---|---|---|---|---|
| 18-24 | SMOKER SHARE | 32.4 | 34.3 | 36.3 | 41.2 | 41.2 |
| TOTAL 18+ | SMOKER SHARE | 15.6 | 16.6 | 17.0 | 18.9 | 24.0 |

- ADDITIONALLY, AS SMOKERS AGE, THEIR RATE-PER-DAY INCREASES
  - -- SMOKERS 25+ CONSUME 22% MORE THAN SMOKERS 18-24.

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- NEWPORT'S STRENGTH CAN BE EXPLAINED BY ITS HIGH YOUNGER ADULT SMOKER DEVELOPMENT AND THE AGING PROCESS.

| | | 1980 | 1981 | 1982 | 1st Half 1983 |
|---|---|---|---|---|---|
| 18-24 | SMOKER SHARE | 6.1 | 7.0 | 7.6 | 8.5 |
| TOTAL 18+ | SMOKER SHARE | 1.9 | 2.2 | 2.3 | 2.6 |

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- THE MOST SUCCESSFUL BRANDS OF THE LAST HALF CENTURY HAVE DERIVED THEIR STRENGTH FROM HIGH YOUNGER ADULT SMOKER DEVELOPMENT.

| | SHARE OF 18-YEAR OLDS |
|---|---|
| 1930's | |
| LUCKY STRIKE | 32 |
| CAMEL | 30 |
| CHESTERFIELD | 20 |
| 1940's/50's | |
| PALL MALL | 30 |
| 1950's/60's | |
| WINSTON | 30 |
| 1970's/80's | |
| MARLBORO | 50 |

- YOUNGER ADULT SMOKER GAINS HAVE BEEN A LONG-TERM INDICATOR OF THE BRAND'S MARKET SHARE GAINS. CONTINUING LOSS OF YOUNGER ADULT SMOKER STRENGTH HAS ALSO BEEN A LEADING INDICATOR OF MARKET SHARE SOFTNESS AND DECLINE.



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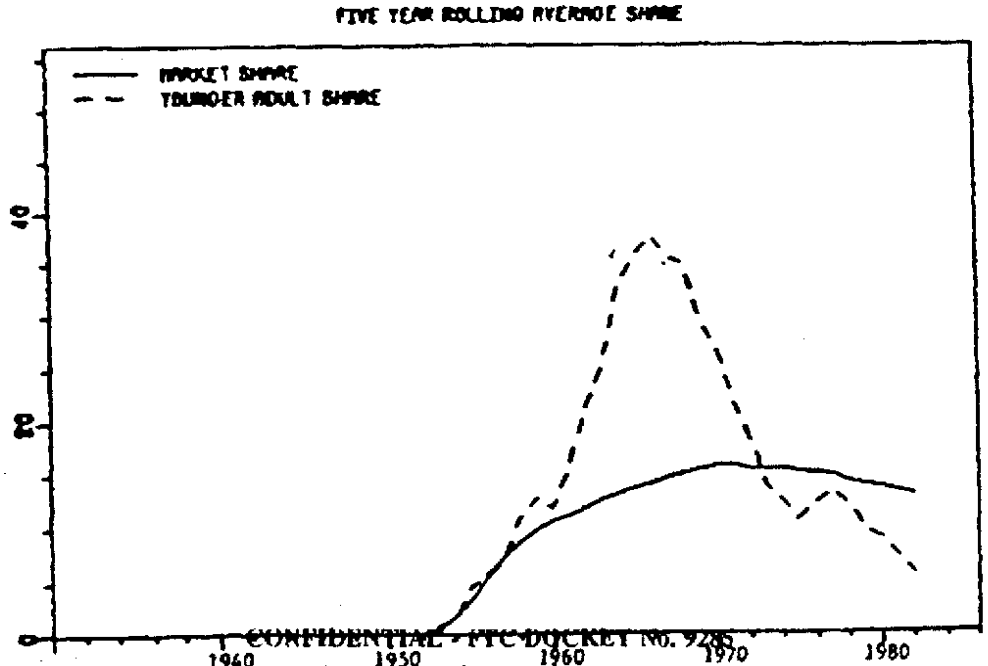
EXAMPLE--WINSTON

-- FAVORABLE TIMING AND THE HEALTH SCARES OF THE 1950'S BENEFITED WINSTON.

-- YOUNGER ADULT SMOKER STRENGTH WAS A LEADING INDICATOR OF WINSTON'S EXTENDED MARKET SHARE GAINS AND OF ITS SOFTENING.

-- CHANGES IN THE EXTERNAL ENVIRONMENT MADE WINSTON LESS IN TUNE WITH THE DEMOGRAPHICS AND THE MINDSET OF THE 1960'S AND MAY HAVE LED TO ITS LOSS IN POPULARITY AMONG YOUNGER ADULT SMOKERS.

## WINSTON

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SOURCE: MAXWELL DATA AND 1983 SDS

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EXAMPLE--MARLBORO

-- MARLBORO SUCCEEDED WITH A "FIRST BRAND" STRATEGY TARGETED TO THE LEADING EDGE OF THE BABY BUBBLE IN THE 1960'S.

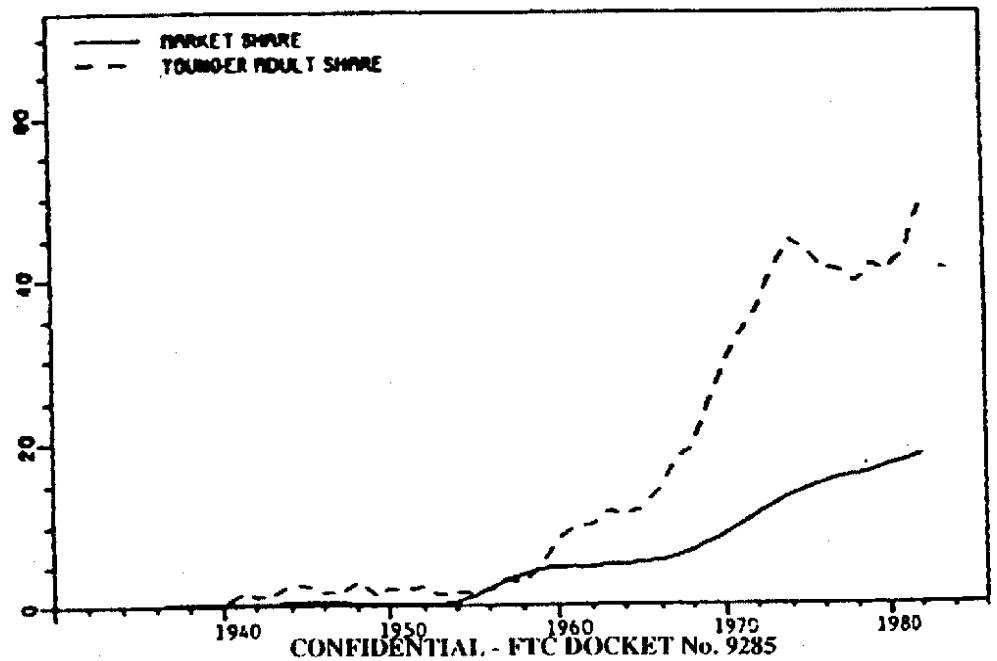
-- MARLBORO'S POSITIONING WAS IN TUNE WITH THE MORE INTENSE MINDSET OF THE 1960'S.

-- MARLBORO IS A "BANDWAGON"/PEER PRESSURE BRAND TODAY.

# HUMPHREY

## MARLBORO

FIVE YEAR ROLLING AVERAGE SHARE

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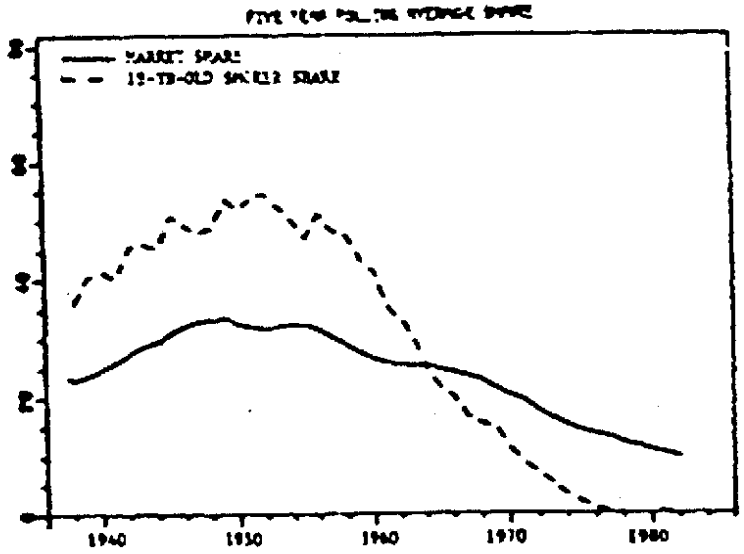
YOUNGER ADULT GROWTH PERFORMANCE HAS ALSO BEEN A LEADING INDICATOR OF COMPANY PERFORMANCE.

EXAMPLE--ATC

-- ATC'S LEADING POSITION AMONG YOUNGER ADULT SMOKERS, FIRST WITH LUCKY STRIKE AND THEN PALL MALL, PUSHED IT TO #1 IN THE INDUSTRY IN 1940. HOWEVER, SINCE PALL MALL WAS ATC'S LAST SUCCESSFUL YOUNGER ADULT ENTRY, THE BRAND'S DOWNTURN SIGNALLED THE FUTURE PERFORMANCE OF ATC AS A COMPANY.

AMERICAN TOBACCO

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- IN RECENT YEARS, PM HAS BEEN VERY EFFECTIVE IN BUILDING ITS SHARE AMONG 18-24 YEAR OLD SMOKERS. THIS HAS PROVIDED A LONG-TERM DIVIDEND BY INCREASING THEIR SHARE OF TOTAL SMOKERS.

| | SHARE AMONG 18-24 SMOKERS | SHARE AMONG TOTAL SMOKERS |
|---|---|---|
| | PM | PM |
| 1979 | 44.8 | 27.8 |
| 1980 | 48.8 | 29.2 |
| 1981 | 51.5 | 31.0 |
| 1982 | 54.0 | 32.2 |
| 1983 | 58.4 | 34.7 |

SOURCE: TRACKER

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KEY ELEMENTS OF "FIRST BRAND"

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- SUCCESSFUL YOUNGER ADULT BRANDS HAVE CAPITALIZED ON THE FOLLOWING TYPES OF OPPORTUNITIES:

-- EXTERNAL FACTORS

- WINSTON CAPITALIZED ON THE "HEALTH SCENE" ENVIRONMENT OF THE 1950's

-- GROWTH SECTORS WITHIN YOUNGER ADULTS

- PALL MALL TOOK ADVANTAGE OF GROWING IMPORTANCE OF YOUNGER ADULT FEMALE SMOKERS IN 1940's AND 1950's[1]
- KOOL CAPITALIZED ON THE IMPORTANCE OF YOUNGER ADULT BLACK SMOKERS IN THE 1960's*
- NEWPORT TARGETED AGAINST BLACKS IN THE NORTHEASTERN U.S. WHERE BLACK POPULATION WAS GROWING IN THE 1970's.

-- OUT OF TOUCH COMPETITORS

- PALL MALL FELL OUT OF TOUCH WHEN IT FAILED TO REACT TO FILTER BOOM
- WINSTON LIGHT-HEARTED/ESTABLISHMENT POSITION DID NOT FIT THE 1960's
- KOOL FOUND ITSELF TOO EXTREME IN THE 1970's.

-- PRODUCT DELIVERY OF MILDNESS

- PALL MALL PROMISED MILDNESS
- WINSTON'S FILTER SUGGESTED MILDNESS
- MARLBORO WAS MILDER
- KOOL DELIVERED MILDNESS THROUGH MENTHOL
- NEWPORT IS PERCEIVED AS MILDER THAN KOOL

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[1]Incidence of younger adult female smoking went from 30% in 1930's to 44% in 1940's.
*Because blacks didn't back off from smoking as did whites in the 1960's, 18 year old blacks accounted for

Spell as much as possible - whole page

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# YOUNGER ADULT SMOKERS

## - What Are They Like, Really -

## - How Do They Show It -

## A. An Overview of How THEY See "Their Generation"

- We are much more open about EVERYTHING
- We have so much FREEDOM
  - We don't need to rebel
  - have so many options
  - Liberal attitudes about sex
  - Don't get married, have babies real young
  - Do drugs and drink too much
- But with freedom, comes STRESS
  - Responsible for choices
  - Grow up faster; make mistakes earlier
- We have goals
  - Our generation is going to hustle
  - Very materialistic
  - Want expensive toys
  - Don't respect peers w/o goals

and pg

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# YOUNGER ADULT SMOKERS

18-20 years old = FUBYAS

21-24 years old = SWITCHERS

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B. Key needs

Will cover for each need:
- Its meaning and nature to FUBYAS
- The difference FUBYAS vs SWITCHERS
- Relevance to marketing

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B. Key Needs

- Five key needs
  - Belonging
  - Being different
  - Upward striving
  - Excitement
  - Sex
- All highly interrelated

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1. BELONGING

- Belonging is enormously important to FUBYAS
- AND this need differentiates them from smokers in older age groups.



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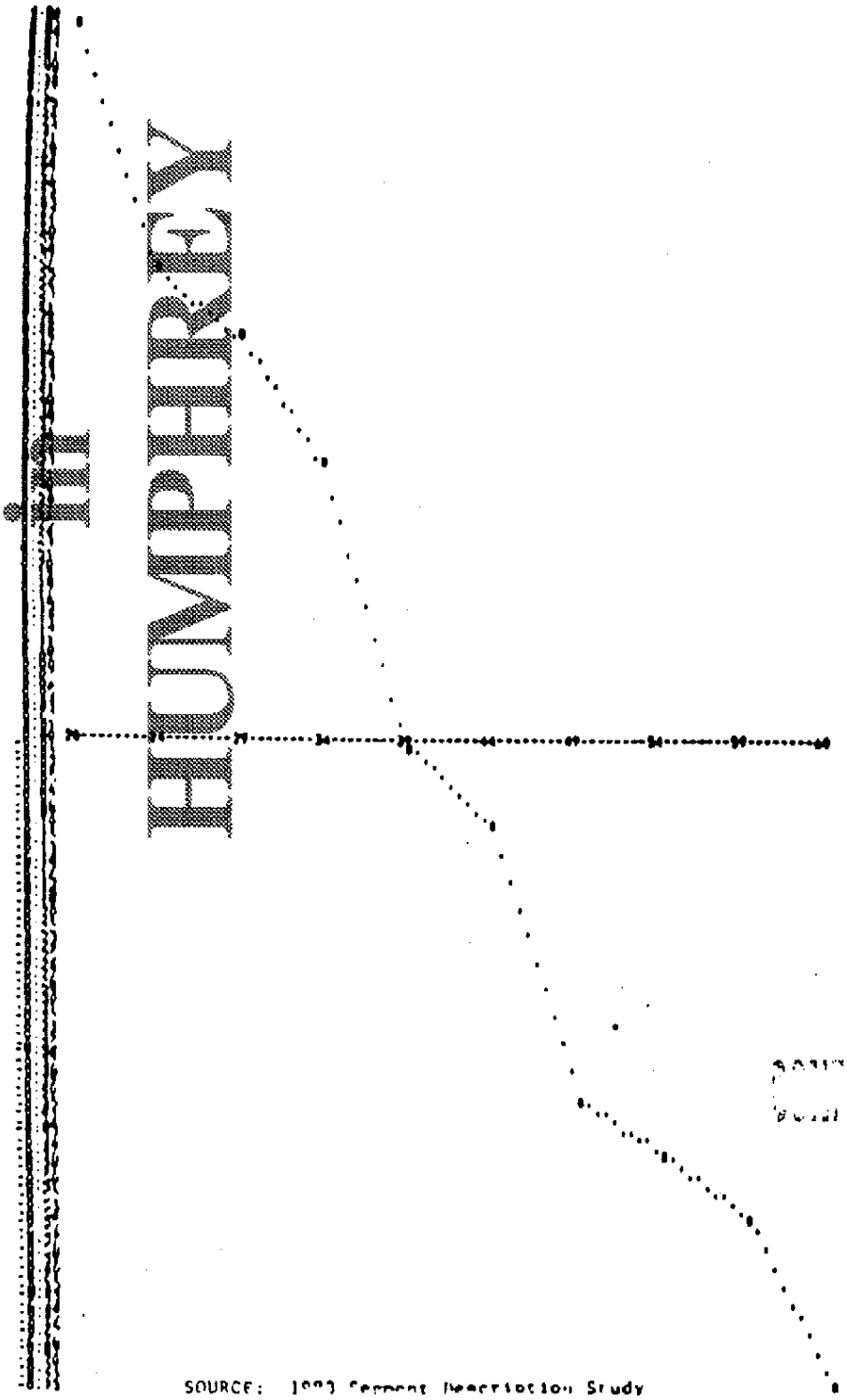
2. BEING DIFFERENT

- The need to be different also DEFINES and DIFFERENTIATES the FUBYAS group.



SOURCE: 1993 Segment Description Study

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1 a 2. BELONGING + BEING DIFFERENT

more space →

- For FUBYAS, so interrelated - inseparable
- What is the NATURE of these needs for this group
  - BELONGING to the family replaced by belonging to selected PEER GROUP

more space →

  - Belonging to selected peer groups requires BEING DIFFERENT from:
    - family
    - other peer groups

end page

- Sources for satisfying these needs:
  - Peer group identity → Belonging + Being Different
    - Different via THE GROUP, not individually
  - A few close friends → Belonging
    - Intimate relationships, cherished

end page

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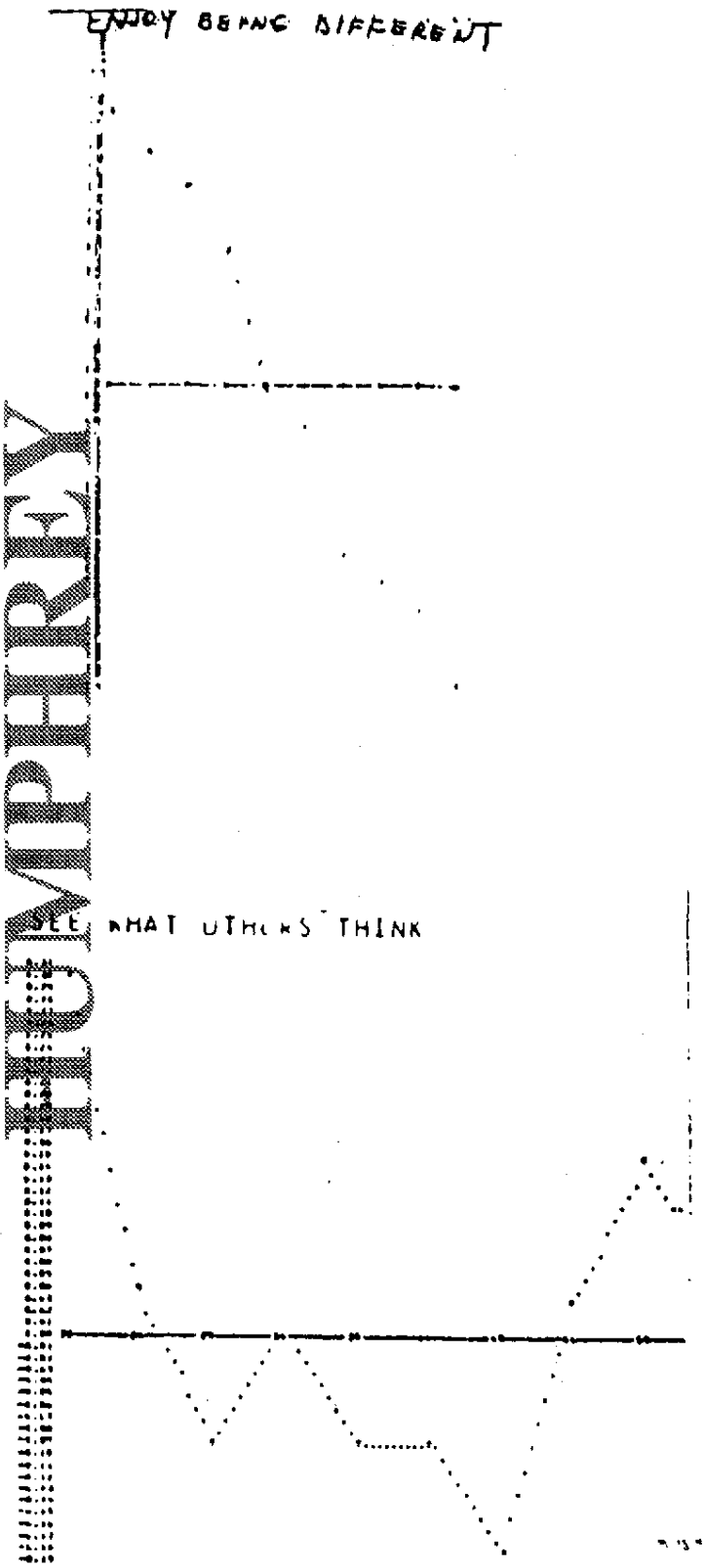
- Being different was the group - not as individual

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# 1.d2. BELONGING + BEING DIFFERENT

## FUBYAS VS SWITCHERS

### FUBYAS

Solid ops

**Belonging:**

- Peer group identity
- A few close friends

**Being different**

- Being different VIA the GROUP
- WHO ARE WE

### SWITCHERS

Solid ops

**Belonging:**

- A few close friends
- Opposite sex
- The broader society

**Being different:**

- Being different as an individual developing self identity (Transition)
- WHO AM I

Cut ops here

- **Marketing Applications** There is [illegible] potential use in FUBYAS
  - Peer group identity with **Identifyable Social Groups**
    - Spectrum - mindsets
    - Spectrum - ones & Symbols
    - Will discuss later
  - Being different, but **HOW DIFFERENT**
    - No rebellion - so much freedom
      - Smoking not rebellion
    - No rebellion - no generation gap
      - Parents' brands OK

cut here

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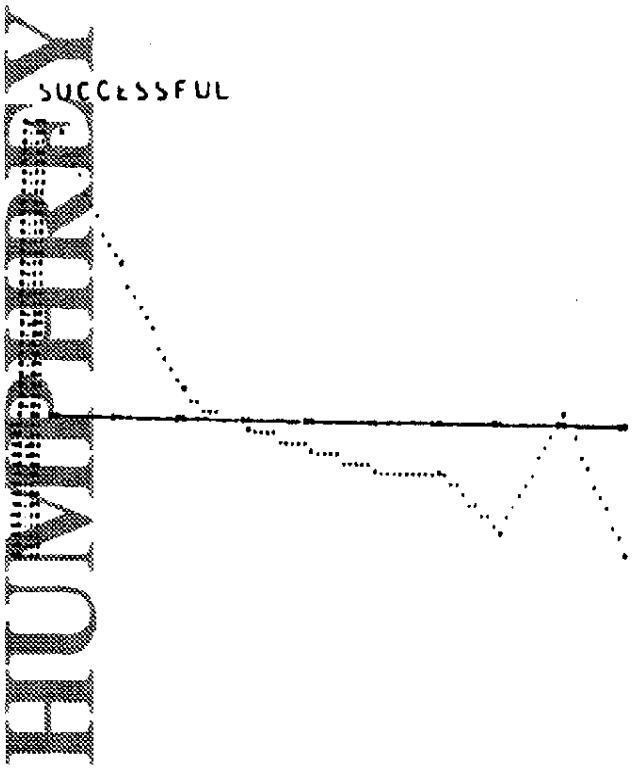
B. Key Needs

3. UPWARD STRIVING

- Here again is a need which defines and differentiates FUBYAS.

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## 3. UPWARD STRIVING

- What do FUBYAS MEAN when they talk about this need

| FUBYAS | VS | SWITCHERS |
|---|---|---|
| Success relates to TODAY | | Success relates to TOMORROW |
| • Reality-based AND Fantasy-based success | | • Aspirational success |
| • Reality-based - today/achievable<br>- A date<br>- A good party<br>- A "coup in front of the gang | | - "Making it"<br>- Job, career success<br>- Good, great income<br>- Developing potential<br>- Meeting goals<br>- Nice home<br>- Many "things" |
| • Fantasy-based - today/unachievable<br>- Always the greatest date<br>- the most popular<br>- the most admired | | |

and so on

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3. UPWARD STRIVING

- Marketing Applications

  - Upward striving motives -- and, therefore, cues and symbols related to TOMORROW -- are not relevant to FUBYAS

  - Also suggests 2 forms of FANTASY may have appeal:

    Escape into IMAGINATION

    the GOOD OLD DAYS

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- Escape into IMAGINATION

- The inclination to deal with life by escaping into imagination differentiates FUBYAS both from older smokers and from non-smoking peers.

18-20 Smokers Net Agreement:

| | Versus 18+ Smokers | Versus 18-20 Non-Smokers |
|---|---|---|
| | % | % |
| Escape/imagination | +40 | +18 |

Source: 1981-1983 Yankelovich

- And, it appears to be particularly leverageable because it is growing.

18-20 Smokers

| | 1979-1981 | 1981-1983 |
|---|---|---|
| | % | % |
| Escape into imagination | 18 | → 34 |

Source: Yankelovich

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- the GOOD OLD DAYS

- The degree to which FUBYAS find romance in "the Good Old Days" highly differentiates them from older smokers.

18-20 Smoker Net Agree VS 18+ Smokers

%

+29

Good old days

in HUMPHREY

Source: 1981-1983 Yankelovich

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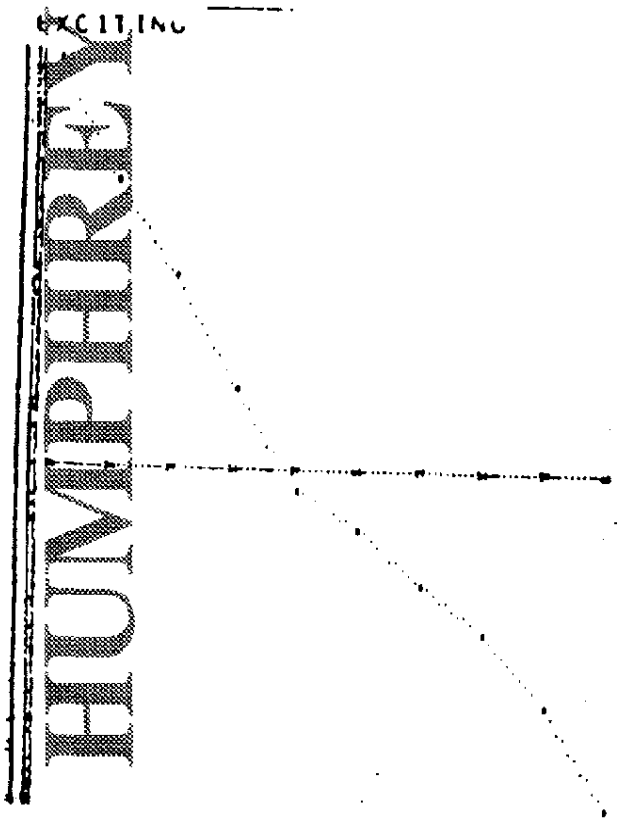
4. EXCITEMENT

- The graph says young adult smokers are right when they describe the rest of us as being in a rut.

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4. EXCITEMENT

| FUBYAS | VS | SWITCHERS |
|---|---|---|
| - HAVE FUN in every way possible at every time possible | | - HAVE FUN selectively |
| • Avoid boredom, rut, routine | | • Select activities of interest |
| • Be spontaneous | | • Develop expertise |
| • No fear of Parents | | • Pursue in allocated leisure time |
| • FUBYAS FUN is a sign of FUBYAS SUCCESS | | • Switchers FUN is sign of switchers SUCCESS |
| - Enjoy TODAY / THE MOMENT | | - Show you're "making it" |

cut page here

• Marketing Applications

- For today's FUBYAS, EXCITEMENT is not simply "A GOOD TIME". It is living at THE EDGE. THE LIMIT... or, at least, IMAGINING so.

You build "the edge" Drive - experience - danger

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4. EXCITEMENT

- Marketing Relevance

  - For today's FUBYAS, EXCITEMENT is not simply "a good time".

  - It is LIVING ON THE EDGE / THE LIMIT ... or, at least, IMAGINING so.

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4. EXCITEMENT = THE EDGE

- "the Edge" differentiates this group ...
  - they like to be seen as risk takers ...

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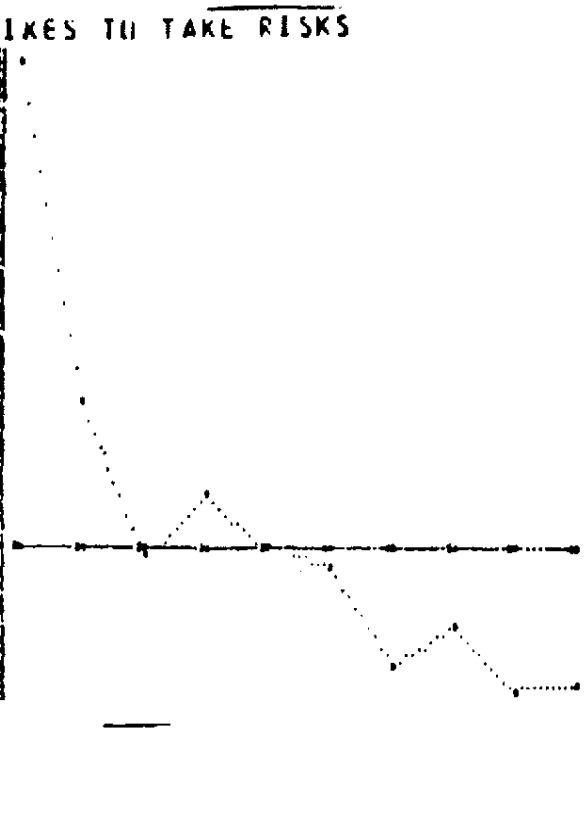


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4. EXCITEMENT - "THE EDGE"

- As one who stands out in a crowd...

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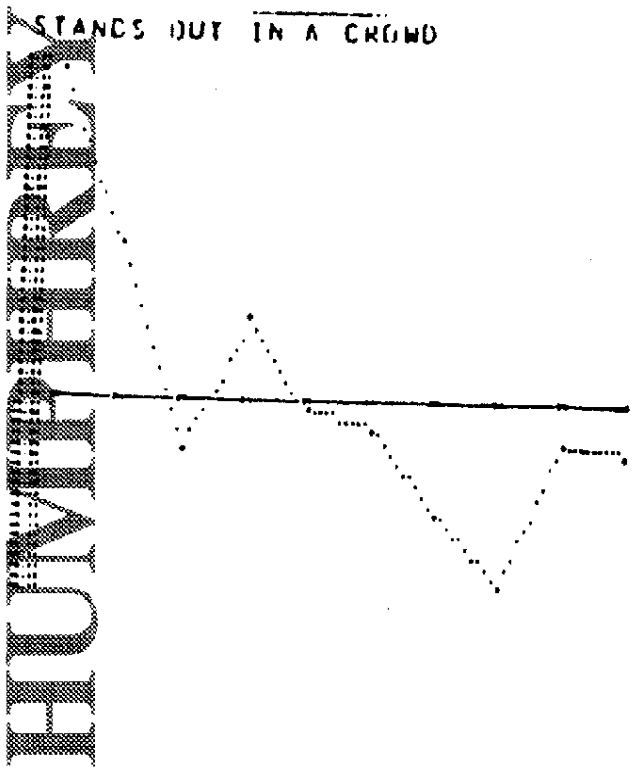


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4. EXCITEMENT - "THE EDGE"

- Aggressive ...




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4. EXCITEMENT - "THE EDGE"

- As achievement oriented...

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4. EXCITEMENT - "THE EDGE"

- As rugged...




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4. EXCITEMENT - "THE EDGE"

And,
- Adventurous.




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## 4. EXCITEMENT - "THE EDGE"

- the desire to live on "THE EDGE" not only DIFFERENTIATES FUBYAS from older smokers, it also appears to be a particularly LEVERAGABLE need, i.e., it is growing.

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"THE EDGE"

| | FUBYAS CHANGE 1981 - 1983 |
|---|---|
| Likes to take risks | +.61 |
| Stands out in a crowd | +.38 |
| Aggressive | +.26 |
| Achievement oriented | +.47 |
| Rugged | +.34 |
| Adventurous | +.42 |

Source: SOS

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5. SEX

Last -- but surely not least.

| FUBYAS | VS | SWITCHERS |
|---|---|---|
| • LOTS of dates<br>- links to success need | | • Closer relationships |
| • ANYTHING goes<br>- links to excitement need | | • We're partners<br>- 50/50 |

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5. SEX

- Marketing Relevance

- Liberal attitudes toward sex clearly differentiate FUBYAS from their non-smoking peers... they are TWICE as in tune with this viewpoint.

| | Net Agreement | |
|---|---|---|
| | Smokers | Non-Smokers |
| | % | % |
| Liberal sex attitudes | | |
| 18-20 | 29 | 15 |
| 18+ | 17 | -2 |

Source: 1981-1983 Yankelovich

cut page

- A marketer can select among 3 alternatives in the application of this learning:

  - Gear the total marketing effort around BLATANT SEX

  - Use selected elements of the marketing mix to target the sex theme to FUBYAS.

  - Use the learning defensively, i.e., execute selected marketing efforts such that don't appear out-of-sync with FUBYAS viewpoint

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5. SEX

For example:

- BLATANT SEX / Entire Marketing Effort

Jovan Musk Oil

| Females | Share | BDI |
|---|---|---|
| 18-24 | 4.6 | 149 |
| 25-34 | 3.7 | 120 |
| 35+ | 2.4 | 78 |
| 18+ | 3.0 | 100 |

Source: 1983 SMRB

cut page

Quoting from Business Week 10/22/79:

Jovan ... is the first company to break into the U.S. fragrance market successfully in 15 years. Indeed, Jovan's novel merchandising techniques have turned the industry on its ear.

While other companies may only allude to a user's sex appeal, Jovan spells it out with copy on bottles, packages, and advertising describing Musk oil as:

- "passion-arousing"
- "erogenous"
- "animal-like"
- "aphrodisiacal"

and a just plain "turn-on".

"This message appeals to the under-25 crowd," says an industry analyst.

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5. SEX

- Use selected elements / FUBYAS targeted for any theme

For example:

- T-Shirts are so popular because they are FUN, SELF-EXPRESSIVE / BADGES.

- Much of the classified ad section of ROLLING STONE is devoted to T-Shirts with "sayings". A few tame ones:
  - This time it's love. Next time it's $20.
  - How can I love you when you won't lie down
  - I think I could fall madly in bed with you

- To tie a line to a brand would, of course, take a relevant link. How about:
  - For a CAMEL T-Shirt WANNA HUMP?

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in

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5. SEX

- Use the learning defensively

- Keep in mind that SQUEAKY CLEAN looks good to us -- but is out-of-sync with the FUBYAS recipient

It is likely to be seen by them as NOT speaking to them, NOT understanding, NOT relevant to their lifestyle.

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C. Broad Guidelines For Understanding/Addressing FUBYAS Needs

- We said earlier that all the key needs discussed are enormously intertwined.
  - You have seen the inseparable relationship between the need to BELONG and TO BE DIFFERENT
  - And how the needs for SUCCESS, EXCITEMENT and SEX relate to each other
  - In the next section you will see how these last three are tied to Belonging and Being Different.

cut page

- However we do feel there are a few concise ideas that can be captured -- based on the needs and their interrelationships -- that can serve as ready-reference GUIDELINES:

For the FUBYAS what is CRITICAL is:

1. TODAY, not tomorrow
2. STAYING YOUNG, not getting old
3. THE EDGE, not the middle ground
4. WE ARE DIFFERENT, not I am different

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D. Differences WITHIN The FUBYAS GROUP

- FUBYAS are not one homogeneous group
- This is good news, because therein lies differentiation and opportunity
- In this section we will discuss FUBYAS Social groups. These are large, loosely knit BUT HIGHLY LABELED sub societies FROM WHICH FUBYAS DRAW THEIR IDENTITY i.e. by BELONGING to a group and using the group TO BE DIFFERENT from other young adults

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- Why And How Are These Social Groups Potentially Useful To Marketing?

- These groups form a SPECTRUM
  - Spectrum reflects attitudinal stances or MINDSETS toward DEALING WITH LIFE / WITH NEEDS
  - From VERY CONSERVATIVE to OUTRAGEOUSLY EXTREME
  - In addition to providing a spectrum of mindsets, we find that the resultant LIFESTYLE CUES AND SYMBOLS are also distributed across the social groups spectrum
    - Activities
    - Music
    - Dress
    - Product / Brand Selection

related to needs

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In net,

- The [redacted] social groups seem to differentiate better than do demographics:

FUBYAS

- Mindsets toward dealing with life / with needs
- + the nature of their needs
- + the resultant lifestyle cues and symbols

cut p.

CAUTION

- The individual FUBYAS is not a perfect stereotype. He/she does not exist purely as a member of one, and only one, social group -- any more than a WINSTON smoker fits the Virile label perfectly on all dimensions.
- Nonetheless, the FUBYAS:
  - Readily classifies others into the groups
  - Knows what his "membership" is
  - Provides attitudinal and behavioral self descriptions which support social group classification.

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Legacy Solid copy "reverse"

# FUBYAS SOCIAL GROUPS SPECTRUM

for TODAY'S Social Groups (Including + Beyond)

Produced by R.J. RRTCC in HUMPHREY

EXTREME CONFORMITY

- Goody Goodies
- Preps
- G Q
- Discos

- Rockers
- Party Parties
- Punkers
- Druggies

EXTREME NON CONFORMITY

- The length of the spectrum is not constant over time ... EXPANDS and CONTRACTS
  - In 1940s, less range
  - In 1960s, more range
- Whatever the LABEL -- there is always a group viewed as very-nonconforming for its generation.
- The labels change over time -- but slowly
  - And there are more labels today than shown -- but they reflect subtle differences
- The lifestyle cues and symbols (which you will see soon) change over time
  - And can change rapidly

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- The OBJECTIVE is to:
  - Identify the enduring mindsets behind the social groups
  - Execute it for today

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# FUBYAS SOCIAL GROUPS SPECTRUM

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EXTREME CONFORMITY

TODAY'S Social Groups (Belonging + Being Different)

Upward Striving

Establishment

Set

- Goody Goodies — Success is establishment approval — Don't go near "THE EDGE" — Avoid set
- Preps
- GQs
- Disco

in

HUMPHREY

Appreciate EDGE, but rarely participate — Liberal

- Rockers — Live at EDGE now and then — More liberal
- Party Parties
- Punkers — "Success is establishment outrage" — THE VERY EDGE — Most liberal
- Druggies

EXTREME NON CONFORMITY

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# EUBYAS SOCIAL GROUP SPECTRUM

## Lifestyle Cues And Symbols

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EXTREME CONFORMITY

TODAY'S Social Groups

| | Music | Clothes | Cars | Drinks | Overall |
|---|---|---|---|---|---|
| • Goody Goodies | | | | | THE LOOK OF THINGS |
| • Preps | Music as a background (Top 40) | the FASHION LOOK - Izod - Nice | Mercedes<br>Volvo<br>Camaro | • Mixed drinks<br>• Budweiser<br>• Heineken | |
| • GQs | | | | | |
| • Disco | | | | | |
| • Rockers | Music as a life statement - Immersion - Concerts - Performers related for their IMAGE | Anti-fashion to Outrageous<br>• Old BLACK T Shirt<br>• Ripped old BLACK T Shirt | • Used car - Pickup - Souped up<br>• Van<br>• Pickup<br>• Beat up, rattly anything | • Jack Daniels<br>• Budweiser | THE FEEL OF THINGS |
| • Party Parties | | | | | |
| • Punkers | | | | | |
| • Druggies | | | | | |

EXTREME NON CONFORMITY

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# FUBYAS SOCIAL GROUP SPECTRUM

- A few T-Shirt lines which seem to capture the feeling of the social groups

| Social Group | T-Shirt Line |
|---|---|
| Goody Goodies | - none (Goody Goodies are boring. T-Shirt lines aren't.) |
| Preps, Disco, Rockers | - It's not whether you win or lose. It's how you look playing the game. |
| | - It's important to have beliefs. I believe I'll have another beer. |
| Punkers | - If you love something, set it free. If it doesn't come back to you, hunt it down and kill it. |
| - Druggies | - Time flies when you don't know what you're doing. |

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FUBYAS SOCIAL GROUP SPECTRUM

EXTREME CONFORMITY

TODAY'S Social Groups

- Goody Goodies
- Preps
- G Q's
- Disco's

in

HUMPHREY

Broadly held viewpoint

Players
B + H
V. Slims

RM0008351

- Rockers
- Party Parties
- Punkers
- Druggies

EXTREME NON CONFORMITY

- CAMEL
- Kool
- WINSTON
- Marlboro

Broadly held viewpoint:

- Cigarette trends would start with Punkers
- Punkers smoke CAMEL

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FUBYAS SOCIAL GROUPS SPECTRUM

1 B

- How the groups feel about each other

— Groups on CONFORMING end of scale view NONCONFORMING groups with distaste

— NONCONFORMING groups tend to resent CONFORMING groups

- Phoney
- The "HAVE'S / Don't have to struggle for things

— ALL groups tend to admire the most non-conforming groups

- Not what group DOES
- But what behavior represents:
  - the "guts" to not conform
  - Not being saddled with any sense of responsibility

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# FUBYAS SOCIAL GROUP SPECTRUM

(14)

- Why are FUBYAS so wrapped up in fads/trends?
- Fads & Trends are VERY IMPORTANT to them in several ways
  - They are critical to each group's IDENTITY
    - Serve as cues/symbols
    - Different groups have credibility to start certain types of trends
      - nice clothes - Preps
      - real booze - Rockers
  - Fads/Trends help satisfy FUBYAS need
    - To belong to the group
    - To be different via the group
    - For excitement in being in on a trend
    - For success in showing you're in on a trend

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# FUBYAS SOCIAL GROUP SPECTRUM

- With regard to "Social Group" participation, FUBYAS tend to live in a MOVIE
  - they know the roles
  - they know the script
  - they know the costumes
  - they know the props

WE WANT TO SUPPLY ONE OF THE PROPS
-- THEIR BRAND OF CIGARETTES.

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MANGINI

TROUTFIRE

2. BEING DIFFERENT

- BUT THEY ALSO . . .

ENJOY BEING DIFFERENT



- BELONG/FIT IN AND BE DIFFERENT A SOURCE OF CONFUSION TO NON-FUB MINDS -- UNTIL WE LOOK THROUGH THEIR EYES RATHER THAN OURS.

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MANGINI
HUMPHREY

## 1. & 2. Belonging and Being Different

- The nature of these needs for FUBYAS

  -- Belonging to the FAMILY (secure) replaced by belonging to selected PEER GROUP (not as secure)

  -- Belonging to selected peer group requires BEING DIFFERENT from:

  - Family
  - Other peer groups

- For FUBYAS, the 2 are inseparable

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QUESTION

ARE YOUNGER ADULT

SMOKERS IMPORTANT?

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PLAINTIFF'S EXHIBIT
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IN THE YOUNGER ADULT OPPORTUNITY ANALYSIS, WE LEARNED . . .

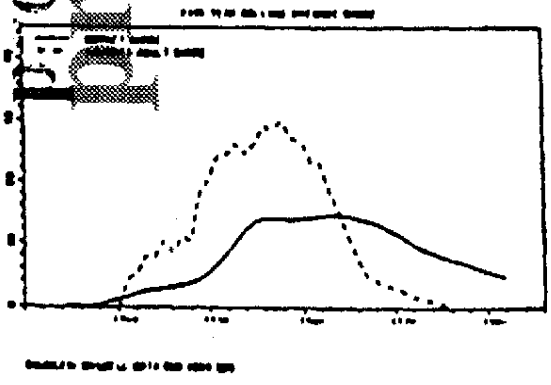
1. THERE ARE 2 DISTINCT CLASSES OF YAS

FUBYAS - THOSE YOUNGER ADULTS WHO ARE ALREADY SMOKERS BUT HAVE REACHED THE STAGE OF CHOOSING A FIRST USUAL BRAND. (FIRST USUAL BRAND YOUNGER ADULT SMOKERS)

SWITCHERS - YOUNGER ADULT SMOKERS WHO HAVE ALREADY CHOSEN A FIRST USUAL BRAND.

2. AND THAT FUBYAS, NOT SWITCHERS, HAVE DRIVEN THE SUCCESS OF THE KEY BRANDS OF THIS CENTURY. THEY ARE LEADING INDICATORS OF GROWTH AND DECLINE.

PALL MALL



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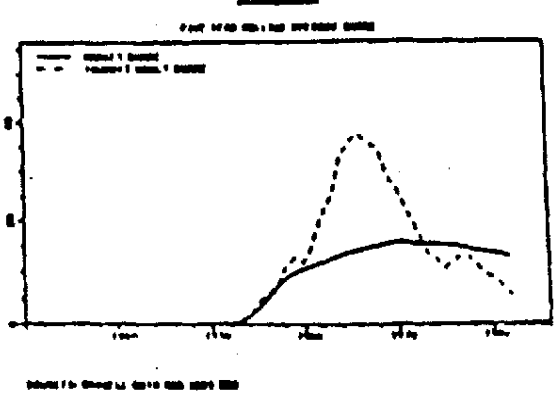

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2. STRONG PERFORMANCE AMONG FUBYAS SMOKERS IS CRITICAL TO LONG TERM SHARE IN THE TOTAL SMOKER MARKET, FOR BOTH BRANDS AND COMPANIES.

- ALTHOUGH SWITCHING CAN BE IMPORTANT IN THE NEAR-TERM MARKET, LOYALTY AND THUS FUB SMOKERS, ARE THE DRIVING FORCE OVER THE LONG TERM.

- BRANDS/COMPANIES WHICH ARE OVERDEVELOPED AMONG FUBYAS SEEM TO GAIN SOM EFFORTLESSLY YEAR AFTER YEAR, EVEN IF THEY SUFFER DRAMATIC SWITCHING LOSSES (E.G., MARLBORO).

- BRANDS/COMPANIES WHICH ARE UNDERDEVELOPED AMONG FUBYAS MUST CONSTANTLY WORK HARD TO ATTRACT SWITCHERS -- TO MOVE THESE NEARLY IMMOVABLE LOYAL SMOKERS.

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MANGINI

HUMPHREY

QUESTION

ARE YOUNGER ADULT

SMOKERS IMPORTANT

TO RJR?

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YOUNGER ADULT SMOKERS -- FUBYAS -- ARE A KEY CHALLENGE TO RJR BECAUSE

- DESPITE STRONG SWITCHING PERFORMANCE YEAR AFTER YEAR...

| MED NET SWITCHING 18+ | 1979-81 | 1982 | 1983 | 5 YEAR AVERAGE |
|---|---|---|---|---|
| RJR | +.35 | +.42 | +.39 | +.40 |
| PM | +.17 | +.24 | -.43 | +.10 |
| GAP | +.18 | +.18 | +.82 | +.30 |

- ...RJR'S TOTAL SMOKER SHARE HAS NOT KEPT PACE WITH PM.

| TRACKER 18+ | 1979 | 1980 | 1981 | 1982 | 1983 | 1ST HALF 1984 |
|---|---|---|---|---|---|---|
| RJR | 32.7 | 33.3 | 32.1 | 32.8 | 32.7 | 32.3 |
| PM | 27.8 | 29.2 | 31.0 | 32.3 | 34.7 | 34.7 |
| GAP | +4.9 | +4.1 | +1.1 | + .5 | -2.0 | -2.4 |

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THE TOTAL MARKET GAP TRACES DIRECTLY TO YOUNGER ADULT SMOKERS AND THE LONG TERM IMPACT OF THEIR BRAND LOYALTY.

THIS YAS GAP HAS MUSHROOMED TO NEARLY 40 POINTS...

SHARE OF SMOKERS 18-24

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1st Half 1984 |
|---|---|---|---|---|---|---|
| RJR | 26.1 | 25.0 | 24.3 | 23.5 | 21.3 | 20.2 |
| PM | 44.8 | 48.8 | 51.5 | 54.0 | 58.4 | 58.6 |
| GAP | -18.7 | -23.8 | -27.2 | -30.5 | -37.1 | -38.4 |

...BUT THE GAP AMONG AGES 18-21, THE FUBYAS, IS EVEN MORE PROFOUND...

S.O.S. 18-21

| | 1983 | 1st Half 1984 |
|---|---|---|
| RJR | 17.7 | 17.5 |
| PM | 63.2 | 63.9 |
| GAP | 45.5 | 46.4 |

...SIMILAR TO THE OMINOUS PICTURE PAINTED IN THE SDS OF THE 18-YEAR-OLD SMOKER TREND.

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PURPOSE

TO BUILD ON LEARNING FROM THE YOUNGER ADULT OPPORTUNITY ANALYSIS.

- TO FIND CONCRETE PRINCIPLES AND MODELS FOR SUCCESSFUL MARKETING ACTION.
- TO MOVE FROM PROBLEM IDENTIFICATION TO WHAT WE CAN DO ABOUT IT.
  - OVERALL STRATEGY
  - RELEVANT ON-TARGET POSITIONINGS
  - EXECUTIONAL GUIDELINES
  - HOW TO REACH THEM AND CATCH THEIR INTEREST

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## SOURCES

- MDD/MARKETING INPUT
  - QUALITATIVE "GUT FEEL"
  - DATA REVIEW AND SOMETIMES RE-ANALYSIS
- OUTSIDE EXPERTS FROM OTHER DISCIPLINES AND INDUSTRIES.
- YA SMOKERS
  - GROUPS AND DEPTHS
  - SAN DIEGO, MEMPHIS, NEW YORK

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GOAL: To give INSIGHT into ACTIONS which can improve RJR performance among smokers choosing their First Usual Brand. Our idea is to:

- Shoot Straight
- Communicate Accurately
  (more than precisely)

RJR 805 7-10

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MANCHESTER HUMPHREY

# SUCCESSFUL MARKETING

# TO

# YOUNGER ADULT SMOKERS

1. WE CAN DO IT (OTHERS HAVE).
2. HOW WE CAN DO IT.
   - START WITH BASIC PRINCIPLES
     - GETTING ON TARGET (DIFFERENTIATION)
     - USING GROWTH SECTORS (LEVERAGEABILITY)
   - KNOW THE TARGET INSIDE OUT
     - MARKET TRENDS
     - MINDSETS
   - MAKE IT LOOK RIGHT TO YAS EYES
     - "SEGMENTS" YAS's KNOW
     - CUES AND SYMBOLS
3. THE BOTTOM LINE

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1. WE CAN DO IT -- OTHERS DID!

TWO EXAMPLES OF BRANDS THAT DID IT -- AND HOW:

1. JACK DANIEL'S -- THE MARLBORO OF BOURBONS
   - UNEXPECTED POSITIONING AND EXECUTION
   - CONSISTENT, LONG TERM MARKETING EFFORT

2. BUDWEISER -- TURNING A BIG BRAND AROUND

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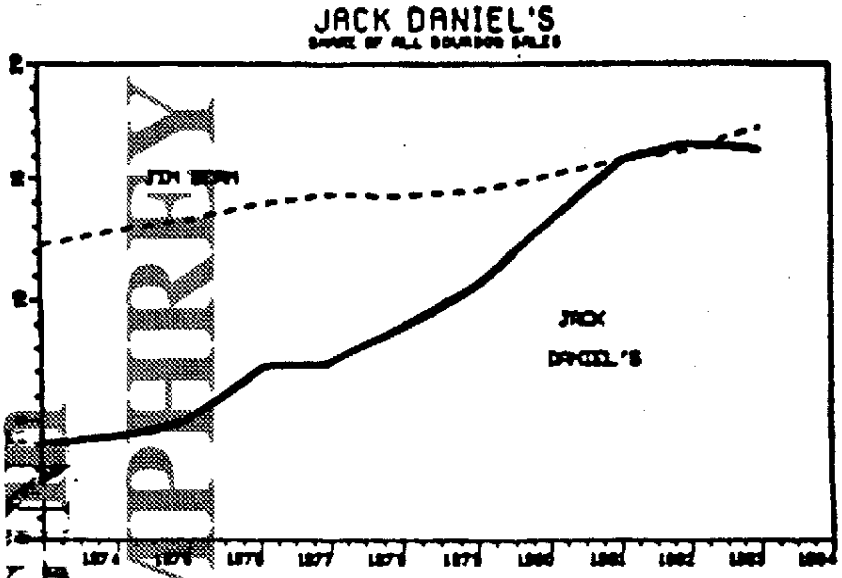


Source: Maxwell Data (1983 Estimated)

- AD AGE SAYS JACK DANIEL'S IS

"UNDOUBTEDLY ONE OF THE CLEAREST EXAMPLES OF SUCCESSFUL MARKETING IN A DECLINING CATEGORY."

JD'S SALES GAINS THROUGHOUT THE 1970'S AVERAGED 15% GROWTH PER YEAR, MORE THAN TRIPLING ITS VOLUME OVER THE DECADE.

- JD ROSE FROM #9 AMONG BOURBONS IN 1974 TO #2 BY 1979 AND HAS SINCE RUN NECK AND NECK FOR #1 WITH JIM BEAM, THE LONG TIME MARKET LEADER.

- JD MANAGEMENT SAYS THE BRAND WAS AFFECTED IN 1983 BY PRICE SENSITIVITY "WITHIN CERTAIN SEGMENTS WHICH HAD BEEN AN EXPANDING PART OF THE BRAND'S FRANCHISE." (LIQUOR INDUSTRY MARKETING, 1984, P. 46)

WE SUSPECT THAT THOSE "EXPANDING SEGMENTS" WERE YOUNGER ADULTS.

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- JD'S AGE PROFILE ALSO RESEMBLES MARLBORO'S AND SUGGESTS THAT THE BRAND'S GROWTH MAY BE A FUNCTION OF AGING AND BRAND LOYALTY, SIMILAR TO MARLBORO OR NEWPORT (WHEREAS JIM BEAM IS RIDING THE HEAVY CONSUMPTION AGES).

BRAND USED "MOST OFTEN" (SMRB)

| | JACK DANIEL'S SHARE | | JACK DANIEL'S BDI | | JIM BEAM |
|---|---|---|---|---|---|
| | 1980 | 1983 | 1980 | 1983 | BDI 1983 |
| 18-24 | 41% | 49% | 156 | 150 | 78 |
| 25-34 | 34 | 40 | 127 | 123 | 92 |
| 35+ | 18 | 23 | 67 | 72 | 111 |
| 18+ | 27% | 32% | 100 | 100 | 100 |

- ON A "SHARE OF DRINKS" RATHER THAN "USUAL BRAND" BASIS, HEUBLEIN DATA SHOWS AN EVEN MORE DRAMATIC SKEW FOR JD.

| | SHARE OF BOURBON DRINKS CONSUMED 1982-83 | |
|---|---|---|
| | % | BDI |
| LEGAL AGE TO 34 | 52% | 186 |
| 35-49 | 16 | 57 |
| 50+ | 6 | 21 |
| TOTAL | 28% | 100 |

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JD'S TARGET = YA

- JD TARGETS YOUNGER ADULTS, ALTHOUGH ITS ORIGINAL IDEA IN 1954 WAS INTENDED TO CAPITALIZE ON MIDDLE-AGED MEN'S NOSTALGIA FOR "MOM'S APPLE PIE".

- IT'S "MARKETING STRATEGY HAS ENABLED JD TO DO EXTREMELY WELL AMONG WELL-EDUCATED, AFFLUENT 18-34 YEAR OLD MALES" -- ESPECIALLY COLLEGE MALES "BY WHOM IT IS PERCEIVED AS A STATUS SYMBOL." (AD AGE 8/4/80)

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JD'S POSTIONING

- JD IS TO BE SEEN AS "THE MOST CAREFULLY MADE, HIGHEST QUALITY, SUPERPREMIUM BRAND OF AMERICAN STRAIGHT WHISKEY ON THE MARKET." (AA 8/4/80)

-- "WE HAVE HAD A FIRM POLICY OF NEVER DISCOUNTING OUR PRODUCT (JD EXEC QUOTED IN AA 8/4/80).

A COMPANY DOCUMENT WRITTEN IN 1955 SAID THE JACK DANIEL'S IMAGE SHOULD REFLECT "A SOFT-SPOKEN RESTRAINED PERSONALITY THAT ATTRACTS SIDEWAY BECAUSE IT NEVER SEEMS TO TRY TOO HARD". (AA 7/26/84)

JD'S CONCEPT

"THEY MADE IT RIGHT IN THE GOOD OLD DAYS"

ITS AD CAMPAIGN CONVEYING THIS MESSAGE APPEARED IN 1954 AND "HASN'T MOVED MORE THAN AN INCH OR TWO IN 25 YEARS." (AD AGE 7/26/84)

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WE CAN'T BLAME THE BOYS for having a water fight now and then. If you worked in Jack Daniel's rickyard, you'd start one too.

Looking after a burning hard maple rick is a hot job. But it's one we can't do without. You see, we take the charcoal that results and use it to help smooth out our whiskey. That's done by seeping it down through huge vats packed tight with this charcoal. Just a taste of Jack Daniel's, we think, and you'll agree it's worth a water fight or two.

CHARCOAL MELLOWED DROP BY DROP

Tennessee Whiskey · 90 Proof · Distilled and Bottled by Jack Daniel Distillery Lem Motlow Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352

Placed on the National Register of Historic Places by the United States Government

50269 6209

- THE ADS "SEEMED REVOLUTIONARY AT THE TIME -- THE LONG COPY WITH NO HEADLINE, SMALL DRAWING OF THE BOTTLE, BLACK AND WHITE PHOTO, FRACTIONAL-PAGE SIZE -- NOTHING ELSE WAS QUITE LIKE IT. OUR ADS LOOKED A BIT ODD AMONG THE BOTTLE-AND-GLASS AND BEAUTIFUL PEOPLE ADS." (AA 7/26/84)

- VISUALS AND COPY ARE "DOWN HOME" AND NEIGHBORLY -- UNDERSTATED AND AUTHENTIC.

- ITS PRODUCT IS "CHARCOAL MELLOWED DROP BY DROP" FOR "SIPPIN' SMOOTHNESS".

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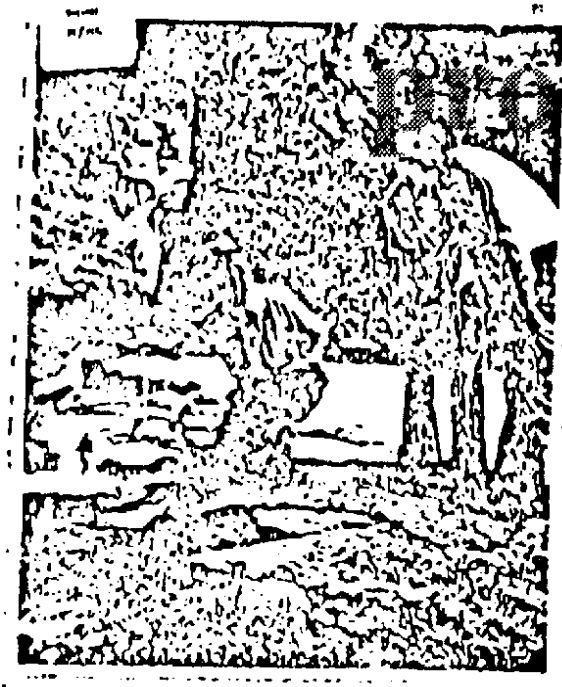

OF THE 2,531 CAVES in Tennessee, this one in Moore County is particularly prized.

It's fed, you see, by an underground, iron-free spring flowing at 56° year round. Mr. Jack Daniel, a native of these parts, laid claim to the cave in 1866. And from that year forward, its water has been used to make Jack Daniel's Whiskey. Of course, there are hundreds of caves just as lovely. But after a sip of Jack Daniel's, you'll know why this one is valued so highly.

CHARCOAL MELLOWED DROP BY DROP

Tennessee Whiskey • 90 Proof • Distilled and Bottled by Jack Daniel Distillery Lem Motlow Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352 Placed on the National Register of Historic Places by the United States Government

JD HAS A "MYSTIQUE".

- THOUGH NEVER A FORMAL PART OF JD'S MARKETING EFFORT, THE BRAND HAS BENEFITTED FROM ITS ASSOCIATION WITH CELEBRITIES SUCH AS HUMPHREY BOGART, SAM RAYBURN, AND CHERETTE BERGEN, WHO WERE SUPPOSED TO HAVE BEEN DEVOTEES OF THE BRAND. (AA 8/4/80)

  MORE RECENTLY: "MY TWO FAVORITE TENNESSEANS -- JACK AND CHARLEY DANIELS."

- BECAUSE OF PRODUCTION CAPACITY, JD HAS BEEN PUT ON ALLOCATION AT TIMES, LENDING IT A "HARD TO GET" IMAGE. (AA 8/4/80)

- BUT JD HELPS THE MYSTIQUE. IT'S DISTILLERY IS ADVERTISED TO BE:

  - NESTLED IN THE FOOTHILLS OF THE CUMBERLAND MOUNTAINS AT LYNCHBURG, TN (POP. 361).

  - IN A DRY COUNTY (THEREFORE "ILLICIT").

  - ON THE U.S. NATIONAL REGISTER OF HISTORIC PLACES.

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HUMPHREY

A LOAD OF HARD MAPLE is a welcome sight to our rickyard manager because it takes a lot to properly smooth out Jack Daniel's.

Neighbors with a use for extra money can count on our buying their hard maple. You see, it takes a bunch of wood to make enough charcoal to fill just one of the charcoal mellowing vats we seep our whiskey through. But the sippin' smoothness it gives Jack Daniel's is well worth all we do to keep a good supply.

CHARCOAL MELLOWED DROP BY DROP

JD'S CAMPAIGN GENERATES SOME OF THE HIGHEST AWARENESS NUMBERS IN THE LIQUOR INDUSTRY (AA 9/26/84).

FOR EXAMPLE, IN A FIRST HALF 1984 STUDY, JD RECEIVED MORE MENTIONS THAN ANY OTHER BRAND WHEN CONSUMERS WERE ASKED TO NAME THE FIRST LIQUOR ADVERTISING THAT CAME TO MIND -- NOT JUST BOURBON (IMPACT 9/1/84, P. 9).

THIS DOES NOT SEEM TO TOTALLY RESULT FROM SPENDING.

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## JD MEDIA

- JD IS A TOP SPENDER AMONG BOURBONS, BUT IS ABOUT MATCHED BY 2-3 OTHER BRANDS. ITS "SHARE OF VOICE" ROUGHLY EQUALS ITS SHARE OF SALES.

AD EXPENDITURES (MAGAZINE/NEWS/OOH)

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| DOLLARS (MM) | $2.9 | $3.5 | $4.5 | $5.1 | $5.0 |
| SHARE OF BOURBON | | | | | |
| SPENDING | 10% | 11% | 14% | 16% | 17% |
| SALES | 11 | 13 | 16 | 16 | 16 |

- JD EMPHASIZES MAGAZINES, BUT SPENDS MORE OOH DOLLARS THAN ANY OTHER BRAND. UNLIKE ITS COMPETITORS, IT HAS NOT TOUCHED NEWSPAPERS UNTIL VERY RECENTLY.

| SPENDING PROFILE | | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| J. DANIEL'S | MAG. | 72% | 74% | 79% | 79% | 81% |
| | NEWS. | -- | -- | -- | -- | 1 |
| | OOH | 28 | 26 | 21 | 21 | 19 |
| ALL BOURBON | MAG. | 61 | 61 | 59 | 60 | 65 |
| | NEWS. | 13 | 13 | 14 | 11 | 11 |
| | OOH | 26 | 26 | 29 | 29 | 24 |

- JD DOES CUSTOM SELECT ITS BOOKS TO REFLECT BOTH ITS TARGET AND ITS IMAGE.

-- YOUNGER ADULT
  - JD PUTS MORE "PAGES" IN ROLLING STONE THAN ANY OTHER BOOK (1982).
  - THE LIKES OF GAMES, DISCOVER, AND MOTHER EARTH NEWS, WHICH OTHER BOURBONS RARELY TOUCH.

-- "PREMIUM"
  - DOUBLE OTHER BOURBONS' EXPOSURE IN BIG BUSINESS (E.G. FORTUNE) AND EDUCATED UPSCALE (E.G., HARPERS, ATLANTIC).
  - LOW EMPHASIS ON "TRADITIONAL" BOURBON VEHICLES LIKE SPORTS ILLUSTRATED OR SOUTHERN LIVING.
  - NO BLACK BOOKS.

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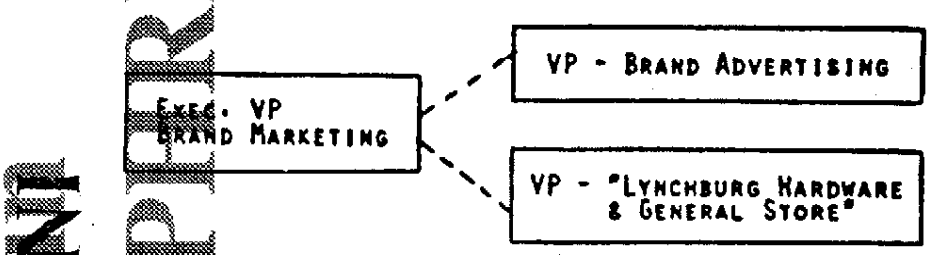
## JD PROMOTIONS

PROMOTIONAL MERCHANDISE, ESPECIALLY CLOTHING, IS A MAJOR ELEMENT IN JD'S MARKETING PROGRAM.

PROMO ITEMS ARE MARKETED THROUGH THE "LYNCHBURG HARDWARE AND GENERAL STORE", WHICH IS HEADED BY A CORPORATE VP.




THE "LYNCHBURG STORE" RUNS ITS OWN SEPARATE, NATIONAL CAMPAIGN FOR WEARABLES.

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JD IS AN EXAMPLE OF A VIABLE POSITIONING, EXECUTED IN A "NON-STANDARD" BUT AUTHENTIC AND UNPRETENTIOUS WAY, WHICH REACHES YA CONSUMERS NOT ONLY THROUGH THEIR BOOKS, BUT BY CONVERTING YA'S INTO WALKING BILLBOARDS. THEY STARTED WITH A GOOD IDEA AND STUCK TO IT.

BUDWEISER, IN CONTRAST, IS A STORY OF HAVING TO RE-THINK THE YA MARKET WHEN THE GOING GOT ROUGH.

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- BUDWEISER LOST MARKET LEADERSHIP TO MILLER IN 1978, ALTHOUGH THE HANDWRITING WAS ON THE WALL BY 1976, WHEN IT GOT A 4-POINT WALLOP FROM MILLER.




- IT WAS IN 1976 THAT AUGUST BUSCH DECIDED TO BITE THE BULLET AND GO TO WORK ON YOUNGER ADULTS.

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- "In 1976, A-B realized that to get the 18-24 market, they would have to develop plans specifically for this segment." In 1977:
  - A national "test" coordinator for college/young adult field-marketing was hired with a budget of $1MM.
  - The decision was made to create separate YA versions of Bud's TV, radio, and print campaign.
- Every year since 1977, A-B has increased its YA commitment, which reached 18 staff and $10MM by 1984.

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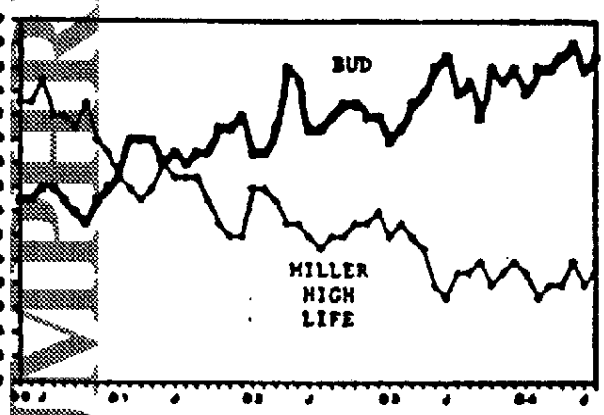
# HUMPHREY IN MANGINI

- DESPITE STEADFAST AND INCREASING COMMITMENT, IT WAS 1981 -- 3 TO 4 YEARS -- BEFORE BUD CAUGHT MILLER AMONG YOUNGER ADULTS.

REGULAR BRAND USAGE
AGE 18-24




- BUT WHEN THEY DID, THE PAYOFF WAS BIG.

| | 1980 | 1983 |
|---|---|---|
| BUDWEISER | 15 ——> | 26 |
| HIGH LIFE | 22 <—— | 9 |

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## WHAT DID BUD DO?

1. THEY APPEAR TO HAVE UPPED THEIR OVERALL ADVERTISING.

BUD ALMOST DOUBLED ITS "SHARE OF VOICE" IN THE INDUSTRY (ESSENTIALLY MATCHING MILLER FOR THE FIRST TIME IN 1982).

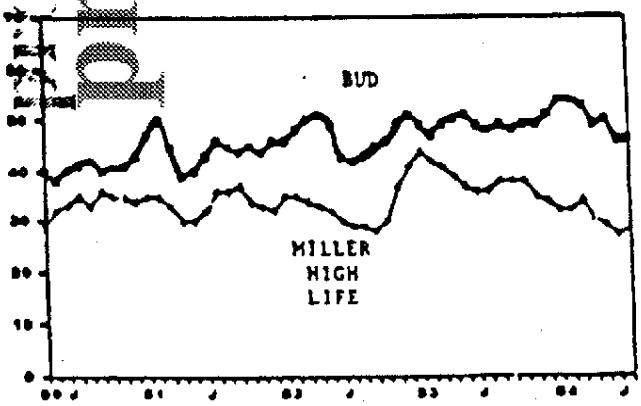
BUDWEISER - AD SPENDING
(MAG/NEWS/OOH/TV/RADIO)

| BRAND/FAMILY | $MM | | | | % BEER INDUSTRY | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1979 | 1980 | 1981 | 1982 |
| BUDWEISER | 36.5 | 49.0 | 67.7 | 104.7 | 9.9 | →11.7 | →14.6 | →19.6 |
| MILLER | 59.0 | 76.0 | 84.4 | 109.0 | 16.0 | 18.1 | 18.2 | 20.4 |

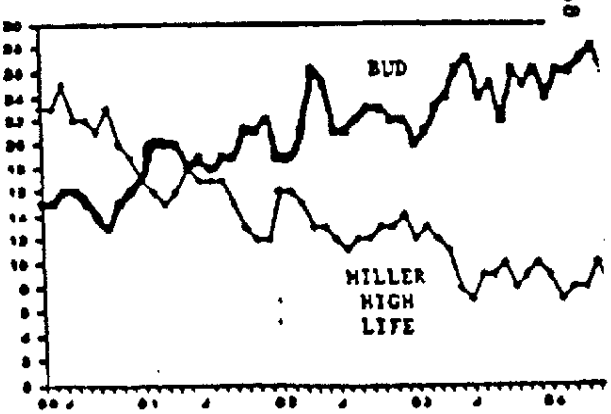
SOURCE: IMPACT DATABOOK

BUT YOUNGER ADULT AD AWARENESS PER SE WAS NOT THEIR PROBLEM VS. MILLER AND NOT THE SOLUTION TO THEIR PROBLEM.

AD AWARENESS 18-24




REG. BRAND USAGE 18-24

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# MANGUM HUNTER

2. THEY HEAVIED UP FIELD MARKETING AND PROMOTIONS.

- THEIR LABEL (A YA STRENGTH) WENT ON PILLOWS, T SHIRTS, EVEN JEANS.

| | PERCEPTIONS 18-24 | | |
|---|---|---|---|
| | BUD | MILLER H.L. | MILLER LITE |
| ATTRACTIVE AVG. | 38% <— | 26% | 19% |

- CAMPUS EVENTS, BAR NIGHTS, SOFTBALL TEAMS AND STREET SCENES -- GIVING THEIR COORDINATOR AUTHORITY TO IMPLEMENT AS HE SAW FIT (WITHIN GUIDELINES) TO CAPITALIZE ON A FIELD OPPORTUNITY ALMOST OVERNIGHT.
- THEY WENT WHERE THE YA WERE, IN SMALL AS WELL AS BIG WAYS.

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MANHUNT

3. THEY DIDN'T REPOSITION THE BRAND, THEY RE-EXECUTED IT FOR THE YOUNGER ADULT MARKET. THEY LEFT THE COPY AND CHANGED THE MESSAGE.

- BUD PRODUCED SPECIAL TV SPOTS FOR YA-TARGETED SHOWS, STARTING ON SATURDAY NIGHT LIVE WITH "TASTE BUD" -- AN IMPROMPTU-LOOKING AD WITH PEOPLE DRESSED AS TASTE BUDS IN A GIANT MOUTH, TOSSING BACK PIZZA INGREDIENTS WHICH WERE WASHED DOWN BY THROWING THE PRODUCT IN THEIR FACES. IT LOOKED LIKE PART OF THE PROGRAM.

TODAY "FOR ALL YOU DO" IN THE GENERAL MARKET IS TREATED AS A STRAIGHT, EVEN INSPIRATION LINE. BUT FOR YA "ALL YOU DO" CAN MEAN ANYTHING.

- ON RADIO, THE BUD COMMERCIAL IS NOT A JINGLE BUT A ROCK SONG -- NOT A YEAR OLD, POPULAR ROCK SONG, BUT ONE FROM THE LATEST HEAVY METAL ALBUM -- ON THE RIGHT STATIONS.

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On the bottom line, YA perceptions of Bud did change.

In 1980, Miller had the key perceptions on its side.

- All product perceptions
- "Youthful" image
- Peer pressure

| YA Perceptions | 1980 Bud | | 1980 High Life |
|---|---|---|---|
| **Image** | | | |
| Masculine | 62 | <- - | 57 |
| Regular Person | 66 | | 63 |
| Self Confident | 58 | | 55 |
| Prestige | NA | | NA |
| Modern/Youthful | 54 | ——> | 63 |
| **Peer Pressure** | | | |
| Popular | 44 | ——> | 66 |
| **Product** | | | |
| Superior Taste | 43 | ——> | 65 |
| Smooth Taste | 48 | ——> | 69 |
| Full-Bodied Taste | 50 | ——> | 65 |
| Light Taste | 33 | ——> | 59 |
| High Quality | 56 | ——> | 67 |
| **Value** | | | |
| Good Value | 37 | | 43 |
| Frequently on Sale | 36 | | 31 |
| YA Reg. Brand Share | 15 | ——> | 22 |

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By 1983, Bud had accomplished 3 key changes:

1. Differentiation of Bud's superiority as a beer with full-bodied taste (note this is not opposite to "light").
2. Product quality perceptions which mean "good value" regardless of price.
3. The side benefit of peer pressure.

| YA Perceptions | 1980 Bud | 1980 High Life | 1983 Bud | 1983 High Life | Change Bud | Change High Life |
|---|---|---|---|---|---|---|
| **Image** | | | | | | |
| Masculine | 62 | 57 | 71 | 52 | + 9 | - 5 |
| Regular Person | 66 | 63 | 65 | 60 | - 1 | - 3 |
| Self Confident | 58 | 55 | 54 | 49 | - 4 | - 6 |
| Prestige | NA | NA | 61 | 55 | NA | NA |
| Modern/Youthful | 54 | 63 | 61 | 58 | + 7 | - 5 |
| **Peer Pressure** | | | | | | |
| Popular | 44 | 66 | 63 | 52 | +19 | -14 |
| **Product** | | | | | | |
| Superior Taste | 43 | 65 | 58 | 50 | +15 | -15 |
| Smooth Taste | 48 | 69 | 50 | 65 | + 2 | - 4 |
| Full-Bodied Taste | 50 | 65 | 64 | 49 | +14 | -16 |
| Light Taste | 33 | 59 | 33 | 57 | NC | - 2 |
| High Quality | 56 | 67 | 60 | 52 | + 4 | -15 |
| **Value** | | | | | | |
| Good Value | 37 | 43 | 39 | 30 | + 2 | -13 |
| Frequently on Sale | 36 | 31 | 35 | 30 | - 1 | - 1 |
| YA Reg. Brand Share | 15 | 22 | 26 | 9 | +11 | -13 |

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HUMPHREY

IT PAID OFF WITH YOUNGER ADULTS AND IT PAID OFF IN THE TOTAL MARKET.




IT CAN BE DONE.

BUD DID IT.

BUD DID IT -- LEARNED TO DO IT.

WE CAN DO IT, TOO.

HOW CAN WE DO IT?

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## HOW WE CAN DO IT

### BASIC PRINCIPLES FROM HISTORY

In the YA Opportunity Analysis, we identified key themes in the succession of major first usual brands of the past. In essence, these themes were:

1. Being "In Tune" or "Out of Tune"

A successful first usual brand begins to decline when another brand becomes better "in tune" than its predecessor with the YAS wants of the times, in terms of product, positioning, or execution.

Example: Marlboro's unsmiling cowboy was better attuned to the rebellious flower-child 1960's than lighthearted "All American" Winston.

2. Growth Sectors

Becoming more (or less) "in tune" has been more a function of changes in YA wants than changes in brands. These changes in wants have often been triggered or propelled by changes in external factors, which:

- directly affected smoker wants (e.g., the rush to filters after the first Surgeon General's Report in the 1950's and Winston)

or

- indirectly change smoker wants by changing the demographic mix among YA smokers. Example: As more women smoked in the 1940's, "female" wants became more important and Pall Mall rose on "stylish length", although it never called itself a "female" brand.

The successful brands were those that "caught the rising trend" at the right time -- early.

To follow up on this learning, we can clarify these two ideas and make them more concrete as follows:

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1. IN TUNE = DIFFERENTIATION

- TO BE IDENTIFIABLE AS YA TO YA'S, A BRAND MUST EMBODY ELEMENTS ("WANTS") WHICH CLEARLY DIFFERENTIATE THE TARGET GROUP FROM ALL OTHER GROUPS.

  THUS, TO TARGET YA SMOKERS 18-20 (FIRST USUAL BRAND SMOKERS), THE BRAND MUST TARGET WANTS WHICH ENDURINGLY DIFFERENTIATE YA SMOKERS 18-20 FROM ALL OTHER GROUPS:

  SMOKERS 21+
  NONSMOKERS 21+
  SMOKERS 21-24
  NONSMOKERS 21-24
  NONSMOKERS 18-20

- DIFFERENTIATION DOES NOT MEAN:

  - WANTS OF SMOKERS 18-20 WHICH ARE DETESTED BY OTHER GROUPS. THEY DON'T REALLY EXIST AND WOULD NOT ENGENDER LOYALTY ANYWAY.
  - TRANSIENT, FRIVOLOUS WANTS.
  - NECESSARILY "EXTREME" PROPOSITIONS.
  - THAT UNDIFFERENTIATING ELEMENTS -- UNIVERSAL WANTS -- CAN'T BE INCORPORATED TOO.

- DIFFERENTIATION DOES MEAN:

  - MORE THAN JUST "APPEAL AMONG YOUNGER ADULT SMOKERS".
  - BETTER DISCRIMINATION IN SELECTING KEY WANTS AMONG MANY WANTS, ON A MEASURABLE BASIS.

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2. USING GROWTH SECTORS = "OPTIMUM LEVERAGEABILITY"

OBVIOUSLY, WE CAN LEVERAGE (OR TRY TO LEVERAGE) ALMOST ANYTHING.

THE KEY POINT, HOWEVER, IS HOW MUCH EFFORT IS REQUIRED FOR HOW MUCH PAYOFF.

INPUT ——→ OUTPUT

THE IDEA OF OPTIMUM LEVERAGEABILITY IS TO MAXIMIZE THE CHANCE OF A PAYOFF AND THE SIZE OF THE PAYOFF.

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OPTIMUM LEVERAGEABILITY CAN BE ACHIEVED ONLY ON AN ELEMENT WHICH DIFFERENTIATES THE TARGET.

WE MUST FIND THE TARGET PRECISELY TO KNOW WHERE TO PLACE THE LEVER.

THIS




NOT THIS




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MAXIMUM RESULTS WILL BE OBTAINED FROM A PROPOSITION (LEVER) WHICH CAPITALIZES ON THE EXISTING BEGININGS OF MOMENTUM/GROWING WANTS...



... UR AT LEAST POTENTIAL MOMENTUM (WANTS WHICH ARE LIKELY TO GROW IN THE FUTURE)



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IT IS NOT DESIRABLE TO TARGET WANTS WHICH HAVE ALREADY GROWN TOO FAR OR TOO FAST FOR THE BRAND TO "CATCH" THE TREND RATHER THAN FOLLOW IT.



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IT IS ALSO UNDESIREABLE TO LEVERAGE WANTS WHICH ARE DECLINING.

THIS CAN BE NONPRODUCTIVE.



... OR EVEN COUNTERPRODUCTIVE.



FOR EXAMPLE, A BRAND COULD EARN YA RESENTMENT BY LEVERAGING AN "IN" TREND WHICH IS ALREADY "OUT" - PRESUMPTUOUS!

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# LEVERAGING IN MARGINAL HUMPHREY

LEVERAGING WANTS WHICH ARE STABLE (DIFFERENTIATING BUT FLAT) REQUIRES EXTRA ENERGY (RESOURCES) BUT SEEMS POSSIBLE ...



IF NO OTHER BRAND HAS PREEMPTED THE POSITION.



NO MEANINGFUL DIFFERENCE = NO MOTION.

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THESE 3 "PRINCIPLES"

DIFFERENTIATION OF THE TARGET
OPTIMUM LEVERAGEABILITY
MEANINGFUL BRAND DIFFERENCE

ARE TOOLS TO GUIDE, NOT MAGIC FORMULAS.

TO PUT THEM TO USE,

WHAT IS LEVERAGEABLE

AMONG YA SMOKERS TODAY?

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1. LEVERAGE IN MARKETPLACE TRENDS

A. VIRILE/FF

- IN TERMS OF CIGARETTE CHOICE, YAS ARE BEST DIFFERENTIATED FROM OTHER SMOKERS BY THEIR AFFINITY FOR FULL FLAVOR AND VIRILE SMOKES.

| | FIRST HALF 1984 | |
|---|---|---|
| | 18-24 | 18+ |
| VIRILE | 50.4 | 37.5 |
| FULL FLAVOR | 50.4 | 43.0 |

SOURCE: TRACKER

- FULL FLAVOR OR "TASTE", AS A CENTRAL FEATURE FOR A BRAND DOES NOT APPEAR LEVERAGEABLE AMONG WHITE YOUNGER ADULTS, SINCE IT IS DECLINING. IT MAY, HOWEVER, STILL HAVE SOME MOMENTUM AMONG YA BLACKS.

| FF | 18-24 TRACKER SHARE | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| TOTAL | 53.9 | 52.8 | 50.9 | 52.3 | 50.4 | -3.5 |
| BLACK | 68.2 | 67.5 | 71.5 | 76.9 | 76.3 | +8.1 |

THIS FITS WITH THE GENERAL PERFORMANCE OF NEWPORT VS. NEWPORT LIGHTS AND MARLBORO VS. MARLBORO LIGHTS.

- THE VIRILE CONCEPT STILL APPEARS LEVERAGEABLE, EXCEPT THAT ALL OF THE SEGMENT'S GROWTH COMES FROM MARLBORO.

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

B. FFLT

AMONG WHITE YAS, FFLT HAS BEEN GROWING, BUT MORE SLOWLY IN RECENT YEARS.

| | TRACKER SHARE 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| FFLT | 37.1 | 39.3 | 39.8 | 41.3 | 40.6 | 42.4 | +5.3 |

THIS FFLT TREND DOES NOT APPEAR TO DERIVE FROM CONSUMER INTEREST IN "LOW TAR" PER SE. DESPITE CONTINUING IMPLIED EMPHASIS BY THE FTC, 1/4 OF BOTH TOTAL AND YA SMOKERS HAVE MOVED FROM "AGREE" TO "DISAGREE" ON THIS POINT SINCE 1980.

"LOW TAR AND NICOTINE CIGARETTES REPRESENT A MAJOR STEP IN THE DIRECTION OF MAKING SMOKING LESS HARMFUL TO THE HEALTH" (YANKELOVICH)

| SMOKERS AGREEING | 1980 | | 1984 | CHG. |
|---|---|---|---|---|
| 18-24 | 66 | <—— | 41 | -25 |
| 18+ | 77 | <—— | 43 | -34 |

AMONG YA SMOKERS, THIS IS CLEARLY CONFIRMED BY PERFORMANCE OF THE MODERATION AND CONCERNED SEGMENTS.

| | TRACKER SHARE 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| MODERATION | 9.6 | 9.7 | 9.4 | 9.2 | 8.2 | 7.4 | -2.2 |
| CONCERNED | 5.4 | 4.5 | 4.0 | 3.0 | 2.4 | 2.2 | -3.2 |

- YA SMOKERS WON'T BUY FOR PRODUCT NEGATIVES.

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

C. COOLNESS/MENTHOL

IN TOTAL, COOLNESS/MENTHOL HAS DECLINED SEVERELY AS A FIRST USUAL BRAND CHOICE SINCE 1977.

| | NFO SHARE AGES 18-20 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | CHG. |
| COOLNESS | 32.9 | 33.5 | 33.1 | 30.9 | 29.7 | 26.0 | 24.1 | 20.7 | 18.7 | -14.2 |

- THIS DECLINE, HOWEVER, HAS OCCURRED ONLY AMONG WHITE YAS.

| | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| COOLNESS | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| WHITE | 23.1 | 21.4 | 20.1 | 18.1 | 18.2 | -4.9 |
| BLACK | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | +1.1 |

AMONG WHITE YAS, THE MOVEMENT HAS NOT ONLY BEEN AWAY FROM COOLNESS, BUT MENTHOLS IN GENERAL.

| | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| WHITE | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| COOLNESS | 23.1 | 21.4 | 20.1 | 18.1 | 18.2 | -4.9 |
| MENTHOL | 31.5 | 31.5 | 30.6 | 27.7 | 27.7 | -3.8 |

AMONG WHITE YAS, THE COOLNESS/MENTHOL LOSSES ARE GOING TO MARLBORO. IN THE 1983 SDS, 94% OF ALL 18-20 NON-MENTHOL SMOKERS ARE NOW SMOKING MARLBORO, USED TO SMOKE MARLBORO, OR LIST MARLBORO AMONG THEIR 3 FAVORITE BRANDS. THE LONG-TERM TRENDS ON NFO ARE MIRROR IMAGES (DISREGARD LEVEL).

| | NFO SHARE AGES 18-20 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | CHG. |
| COOLNESS | 32.9 | 33.5 | 33.1 | 30.9 | 29.7 | 26.0 | 24.1 | 20.7 | 18.7 | -14.2 |
| MARLBORO | 34.3 | 33.6 | 32.6 | 34.8 | 36.4 | 38.4 | 43.2 | 46.7 | 50.9 | +16.6 |

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

- AMONG BLACK YA, COOLNESS IS HOLDING ITS OWN, SINCE KOOL'S MASSIVE LOSSES ARE BEING OFFSET BY NEWPORT ...

| BLACK | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| KOOL | 34.6 | 30.8 | 27.9 | 21.8 | 17.2 | -17.4 |
| NEWPORT | 18.6 | 22.4 | 27.7 | 36.4 | 38.6 | +20.0 |
| SALEM | 17.2 | 19.2 | 17.3 | 13.6 | 15.9 | - 1.3 |
| COOLNESS | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | + 1.1 |

AND MENTHOLS CAPTURE 90% OF THE MARKET, I.E., DIFFERENTIATE BLACK YA.

| BLACK | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| COOLNESS | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | +1.1 |
| MENTHOL | 88.6 | 89.7 | 91.5 | 88.9 | 93.8 | +5.2 |

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## 1. & 2. BELONGING AND BEING DIFFERENT

- SOURCES FOR SATISFYING THESE NEEDS:

-- A FEW CLOSE FRIENDS ——→ BELONGING

- INTIMATE RELATIONSHIP, CHERISHED

PEER GROUP IDENTITY ——→ BELONGING + BEING DIFFERENT

- DIFFERENT VIA THE GROUP, NOT INDIVIDUALLY

THEY ENJOY BEING DIFFERENT BUT WAIT TO SEE WHAT OTHERS THINK



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1. & 2. BELONGING AND BEING DIFFERENT (CONT.)

| FURYAS | VS. | SWITCHERS |
|---|---|---|
| BELONGING: | | BELONGING: |
| -- PEER GROUP IDENTITY | | |
| -- A FEW CLOSE FRIENDS | | -- A FEW CLOSE FRIENDS |
| | | -- OPPOSITE SEX |
| | | -- THE BROADER SOCIETY |
| BEING DIFFERENT: | | BEING DIFFERENT: |
| -- BEING DIFFERENT VIA THE GROUP | | -- BEING DIFFERENT AS AN INDIVIDUAL DEVELOPING SELF-IDENTITY (TRANSITION) |
| -- WHO ARE WE | | -- WHO AM I |

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1. & 2. BELONGING AND BEING DIFFERENT (CONT.)

- MARKETING RELEVANCE
  - -- FUBYAS' PEER GROUP IDENTITY WITH IDENTIFIABLE SOCIAL GROUPS PROVIDES
    - SPECTRUM -- MINDSETS
    - SPECTRUM -- CUES & SYMBOLS
    - WILL DISCUSS LATER IN DETAIL

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B. KEY NEEDS

3. UPWARD STRIVING DIFFERENTIATES FURYAS

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BE SEEN AS SUCCESSFUL



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3. UPWARD STRIVING

- WHAT DO FUBYAS MEAN WHEN THEY TALK ABOUT THIS NEED

| FUBYAS | VS. | SWITCHERS |
|---|---|---|
| SUCCESS RELATES TO TODAY | | SUCCESS RELATES TO TOMORROW |
| • REALITY-BASED AND FANTASY-BASED SUCCESS | | • ASPIRATIONAL SUCCESS |
| -- REALITY-BASED--TODAY/ ACHIEVABLE | | -- "MAKING IT" |
| - A DATE | | -- JOB, CAREER SUCCESS |
| - A GOOD PARTY | | -- GOOD, GREAT INCOME |
| - A "COUP" IN FRONT OF THE GANG | | -- DEVELOPING POTENTIAL |
| | | -- MEETING GOALS |
| FANTASY-BASED--TODAY/ UNACHIEVABLE | | -- NICE HOME |
| - THE MOST POPULAR | | -- MANY "THINGS" |
| - THE MOST ADMIRED | | |
| - "RIDING THE BIG WAVE" | | |

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3. UPWARD STRIVING

- MARKETING RELEVANCE

  -- UPWARD STRIVING MOTIVES AND THEREFORE CUES AND SYMBOLS RELATED TO TOMORROW ARE NOT RELEVANT TO FUBYAS

  -- YANKELOVICH DATA SUGGESTS TWO FORMS OF FANTASY MAY BE BOTH DIFFERENTIATING AND LEVERAGABLE:

     - ESCAPE INTO IMAGINATION
     - THE GOOD OLD DAYS

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3. UPWARD STRIVING (CONT.)

- ESCAPE INTO IMAGINATION (RESPONSIVENESS TO FANTASY)

-- THE INCLINATION TO DEAL WITH LIFE BY ESCAPING INTO IMAGINATION DIFFERENTIATES FUBYAS BOTH FROM OLDER SMOKERS AND FROM NON-SMOKING PEERS.

18-20 SMOKERS NET AGREEMENT:

| | VERSUS 18+ SMOKERS % | VERSUS 18-20 NON-SMOKERS % |
|---|---|---|
| ESCAPE INTO IMAGINATION | +40 | +18 |

AND, IT APPEARS TO BE PARTICULARLY LEVERAGEABLE BECAUSE IT IS GROWING.

| | 18-20 SMOKERS 1979-1981 % | | 1981-1983 % |
|---|---|---|---|
| ESCAPE INTO IMAGINATION | 18 | ——→ | 34 |

SOURCE: YANKELOVICH

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3. UPWARD STRIVING (CONT.)

- THE GOOD OLD DAYS (NEW ROMANTICISM)

  -- THE DEGREE TO WHICH FUBYAS FIND ROMANCE IN THE FANTASY OF "THE GOOD OLD DAYS" HIGHLY DIFFERENTIATES THEM FROM OLDER SMOKERS.

18-20 SMOKER NET AGREE VS. 18+ SMOKERS
%

"GOOD OLD DAYS" +29

SOURCE: YANKELOVICH

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EXCITEMENT

- THE GRAPH SAYS YOUNGER ADULT SMOKERS ARE RIGHT WHEN THEY DESCRIBE THE REST OF US AS BEING IN A RUT.

EXCITING THINGS



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4. EXCITEMENT (CONT.)

| FUBYAS | VS. | SWITCHERS |
|---|---|---|
| - HAVE FUN IN EVERY WAY POSSIBLE AT EVERY TIME POSSIBLE | | - HAVE FUN SELECTIVELY |
| • AVOID BOREDOM, RUT, ROUTINE | | • SELECT ACTIVITIES OF INTEREST |
| • BE SPONTANEOUS | | • DEVELOP EXPERTISE |
| • "NO FUN" PARENTS | | • PURSUE IN ALLOCATED LEISURE TIME |
| • FUBYAS FUN IS FUBYAS SUCCESS<br>- ENJOY TODAY/THE MOMENT TO THE LIMIT | | • SWITCHERS FUN IS A SIGN OF SWITCHERS SUCCESS<br>-- SHOWS YOU'RE "MAKING IT" |

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4. EXCITEMENT (CONT.)

- MARKETING RELEVANCE
  - -- FOR TODAY'S FUBYAS, EXCITEMENT IS NOT SIMPLY "A GOOD TIME."
  - -- IT IS LIVING ON THE EDGE/THE LIMIT...OR, AT LEAST, IMAGINING SO.

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4. EXCITEMENT = "THE EDGE"

- "THE EDGE" DIFFERENTIATES THIS GROUP...
  - -- THEY LIKE TO BE SEEN AS RISK TAKERS...

LIKES TO TAKE RISKS



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4. EXCITEMENT - "THE EDGE"

-- As one who stands out in a crowd...

STANDS OUT IN CROWD



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EXCITEMENT • "THE EDGE"

-- AGGRESSIVE...

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A. EXCITEMENT = "THE EDGE"

-- AS ACHIEVEMENT ORIENTED (IN THEIR OWN WAY)...



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EXCITEMENT = "THE EDGE"

-- AND, ADVENTUROUS.

ADVENTUROUS



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4. EXCITEMENT -- "THE EDGE"

- THE DESIRE TO LIVE ON "THE EDGE" NOT ONLY DIFFERENTIATES FUBYAS FROM OLDER SMOKERS, IT ALSO APPEARS TO BE A PARTICULARLY LEVERAGABLE IDEA, I.E., IT IS GROWING.

| "THE EDGE" | FUB VS. SWITCHER DIFFERENCE | | FUBYAS GROWTH 1981-83 | |
|---|---|---|---|---|
| | PTS. | RANK | PTS. | RANK |
| LIKES TO TAKE RISKS | + .61 | 1 | + .61 | 1 |
| ACHIEVEMENT ORIENTED | + .36 | 3 | + .47 | 3 |
| ADVENTUROUS | + .29 | 8 | + .42 | 4 |
| STAND OUT IN A CROWD | + .31 | 4 | + .38 | 5 |
| GENUINE | + .35 | 6 | + .35 | 6 |
| RUGGED | + .27 | 12 | + .34 | 7 |
| DYNAMIC | + .27 | 11 | + .32 | 8 |
| AGGRESSIVE | + .30 | 5 | + .26 | 9 |

- "THE EDGE" IS NOT LIMITED TO MACHO/PHYSICAL DANGER CONTEXT -- "THE EDGE" IS AN IMAGE, AN IDEA, AND CAN APPLY TO CLOTHES, SEX, DRUGS, LANGUAGE, CARS, ANY WAY YOU CAN "TAKE IT TO THE LIMIT."

SOURCE: SDS

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5. SEX

LAST -- BUT SURELY NOT LEAST.

| FURYAS | VS | SWITCHERS |
|---|---|---|
| • LOTS OF DATES | | • CLOSER RELATIONSHIPS |
| LINKS TO SUCCESS NEED | | |
| • ANYTHING GOES | | • WE'RE PARTNERS |
| LINKS TO EXCITEMENT NEED | | -- 50/50 |

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5. SEX (CONT.)

- MARKETING RELEVANCE

  -- LIBERAL ATTITUDES TOWARD SEX CLEARLY DIFFERENTIATE SMOKERS FROM THEIR NON-SMOKING PEERS...THEY ARE TWICE AS IN TUNE WITH THIS VIEWPOINT.

NET AGREEMENT/DISAGREEMENT

| | SMOKERS % | NON-SMOKERS % |
|---|---|---|
| LIBERAL SEX ATTITUDES | | |
| 18-20 | 29 | 15 |
| 18+ | 17 | -2 |

SOURCE: 1981-1983 YANKELOVICH

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5. SEX (CONT.)

- A MARKETER CAN SELECT AMONG 3 ALTERNATIVES TO APPLY THIS LEARNING:
  - -- GEAR THE TOTAL MARKETING EFFORT AROUND BLATANT SEX
  - -- USE SELECTED ELEMENTS OF THE MARKETING MIX TO TARGET THE SEX THEME TO FUBYAS ONLY.
  - USE THE LEARNING DEFENSIVELY, I.E., EXECUTE RELEVANT MARKETING EFFORTS THAT DON'T APPEAR OUT-OF-SYNC WITH FUBYAS VIEWPOINT.

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5. SEX

- BLATANT SEX/ENTIRE MARKETING EFFORT

FOR EXAMPLE:

| | JOVAN MUSK OIL | |
|---|---|---|
| FEMALES | SHARE | BDI |
| 18-24 | 4.6 | 149 |
| 25-34 | 3.7 | 120 |
| 35+ | 2.4 | 78 |
| 18+ | 3.0 | 100 |

QUOTING FROM BUSINESS WEEK 10/22/79:

"JOVAN... IS THE FIRST COMPANY TO BREAK INTO THE U.S. FRAGRANCE MARKET SUCCESSFULLY IN 15 YEARS. INDEED, JOVAN'S NOVEL MERCHANDISING TECHNIQUES HAVE TURNED THE INDUSTRY ON ITS EAR.

WHILE OTHER COMPANIES MAY ONLY ALLUDE TO A USER'S SEX APPEAL, JOVAN SPELLS IT OUT WITH COPY ON BOTTLES, PACKAGES, AND ADVERTISING DESCRIBING MUSK OIL AS:

- "PASSION-AROUSING"
- "EROGENOUS"
- "ANIMAL-LIKE"
- "APHRODISIAC"

AND JUST A PLAIN "TURN-ON."

"THIS MESSAGE APPEALS TO THE UNDER 25 CROWD," SAYS AN INDUSTRY ANALYST.

SOURCE: 1983 SMRB

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5. SEX (CONT.)

- USE SELECTED ELEMENTS TARGETED TO FURYAS ONLY

FOR EXAMPLE:

-- T-SHIRTS ARE SO POPULAR BECAUSE THEY ARE FUN, SELF-EXPRESSIVE/BADGES.

-- MUCH OF THE CLASSIFIED AD SECTION OF ROLLING STONE IS DEVOTED TO T-SHIRTS WITH "SAYINGS." A FEW TAME ONES:

- THIS TIME IT'S LOVE. NEXT TIME IT'S $20.
- HOW CAN I LOVE YOU WHEN YOU WON'T LIE DOWN.
- I THINK I COULD FALL MADLY IN BED WITH YOU.

-- TO TIE A LINE TO A BRAND WOULD, OF COURSE, TAKE A RELEVANT LINK. HOW ABOUT:

- FOR A CAMEL T-SHIRT -- WANNA HUMP?

-- ONE HUMP OR TWO?

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5. SEX (CONT.)

- USE THE LEARNING DEFENSIVELY

  -- KEEP IN MIND THAT SQUEAKY CLEAN LOOKS GOOD TO US -- BUT IS OUT-OF-SYNC WITH THE FUBYAS VIEWPOINT.

  IT IS LIKELY TO BE SEEN BY THEM AS NOT SPEAKING TO THEM, NOT UNDERSTANDING, NOT RELEVANT TO THEIR LIFESTYLE.

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## BROAD GUIDELINES FOR UNDERSTANDING/ADDRESSING FUBYAS NEEDS

- ALL OF THESE KEY NEEDS ARE ENORMOUSLY INTERTWINED.
  - -- YOU HAVE SEEN THE INSEPARABLE RELATIONSHIP BETWEEN THE NEED TO BELONG AND TO BE DIFFERENT
  - -- AND HOW THE NEEDS FOR SUCCESS, EXCITEMENT AND SEX RELATE TO EACH OTHER.
  - -- IN THE NEXT SECTION, YOU WILL SEE HOW THESE LAST THREE ARE TIED TO BELONGING AND BEING DIFFERENT.

- A FEW CONCISE IDEAS CAN BE CAPTURED FROM THESE NEEDS AND THEIR INTERRELATIONSHIPS TO SERVE AS READY-REFERENCE GUIDELINES:

FOR THE FUBYAS WHAT IS CRITICAL IS:

1. TODAY, NOT TOMORROW
2. STAYING YOUNG/NOT IN THE RUT
3. ON THE EDGE, NOT THE MIDDLE GROUND

SEE THINGS THROUGH THEIR EYES, NOT OURS.

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## DIFFERENTIATING WITHIN THE FUBYAS GROUP

- FUBYAS ARE NOT ONE HOMOGENEOUS GROUP
- THIS IS GOOD NEWS, BECAUSE THEREIN LIES DIFFERENTIATION AND OPPORTUNITY
- THE SEGMENTS THAT FUBYAS KNOW ARE THEIR SOCIAL GROUPS. THESE ARE LARGE, LOOSELY KNIT BUT HIGHLY LABELED SUB-SOCIETIES FROM WHICH FUBYAS DRAW THEIR IDENTITY, I.E., BY BELONGING TO THE GROUP AND USING THE GROUP TO BE DIFFERENT FROM OTHER YOUNGER ADULTS.

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## Differentiating within the FUBYAS group

- Why and How Are These Social Groups Potentially Useful to Marketing?

  -- These groups form a SPECTRUM

     - Spectrum reflects attitudinal stances or MINDSETS toward DEALING WITH LIFE/WITH NEEDS

       From VERY CONSERVATIVE to OUTRAGEOUSLY EXTREME

     - In addition to providing a spectrum of mindsets related to needs, we find that the resultant LIFESTYLE CUES AND SYMBOLS are also distributed across the social groups spectrum

       - Activities
       - Music
       - Dress
       - Product/brand selection

- In net, the social groups seem to differentiate better than do demographics:

  -- FUBYAS mindsets toward dealing with life/with needs

  -- The nature of their needs

  -- The resultant lifestyle cues and symbols

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- CAUTION

-- THE INDIVIDUAL FUBYAS IS NOT A PERFECT STEREOTYPE. HE/SHE DOES NOT EXIST PURELY AS A MEMBER OF ONE, AND ONLY ONE, SOCIAL GROUP -- ANY MORE THAN A WINSTON SMOKER FITS THE VIRILE IMAGE PERFECTLY ON ALL DIMENSIONS.

-- NONETHELESS, THE FUBYAS:

- READILY CLASSIFIES OTHERS INTO THE GROUPS
- KNOWS WHAT HIS "MEMBERSHIP" IS
- PROVIDES ATTITUDINAL AND BEHAVIORAL SELF- DESCRIPTIONS WHICH SUPPORT SOCIAL GROUP CLASSIFICATION.

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## FURYAS SOCIAL GROUPS SPECTRUM

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TODAY'S SOCIAL GROUPS
(BELONGING & BEING DIFFERENT)

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EXTREME CONFORMITY

- 0 -

EXTREME NONCONFORMITY

- GOODY GOODIES
- PREPS
- GQs
- DISCOS
- ROCKERS
- PARTY PARTIES
- PUNKERS
- BURNOUTS

- THE LENGTH OF THE SPECTRUM IS NOT CONSTANT OVER TIME--EXPANDS AND CONTRACTS
  - IN 1940s, LESS RANGE
  - IN 1960s, MORE RANGE
- WHATEVER THE LABEL--THERE IS ALWAYS A GROUP VIEWED AS VERY NONCONFORMING FOR ITS GENERATION.
- THE LABELS CHANGE OVER TIME--BUT SLOWLY
  - AND THERE ARE MORE LABELS TODAY THAN SHOWN--BUT THEY REFLECT SUBTLE DIFFERENCES
- THE LIFESTYLE CUES AND SYMBOLS (WHICH YOU WILL SEE SOON) CHANGE OVER TIME
  - AND CAN CHANGE RAPIDLY

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THE OBJECTIVE IS TO:

- IDENTIFY THE ENDURING MINDSETS BEHIND THE SOCIAL GROUPS.
- USE THE GROUP LABELS NOT AS TARGETS, BUT AS GUIDELINES TO HELP EXECUTE RIGHT FOR TODAY.

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## FUBYAS SOCIAL GROUPS SPECTRUM

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| EXTREME CONFORMITY | TODAY'S SOCIAL GROUPS (BELONGING & BEING DIFFERENT) | UPWARD STRIVING | EXCITEMENT | SEX |
|---|---|---|---|---|
| ↑ | • GOODY GOODIES | "SUCCESS" IS ESTABLISHMENT APPROVAL | DON'T GO NEAR "THE EDGE" | AVOID SEX |
| | • PREPS<br>• GO's<br>• DISCO's | | APPRECIATE EDGE, BUT RARELY PARTICIPATE | LIBERAL |
| - 0 - | | | | |
| | • ROCKERS<br>• PARTY PARTIES | | LIVE AT EDGE NOW AND THEN | MORE LIBERAL |
| ↓ | • PUNKERS | "SUCCESS" IS ESTABLISHMENT OUTRAGE | THE VERY EDGE | MOST LIBERAL |
| EXTREME NONCONFORMITY | • BURNOUTS | | | |

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## FUBYAS SOCIAL GROUP SPECTRUM

- WITH REGARD TO "SOCIAL GROUP" PARTICIPATION, FUBYAS TEND TO LIVE IN A MOVIE
  - -- THEY KNOW THE ROLES
  - -- THEY KNOW THE SCRIPT
  - -- THEY KNOW THE COSTUMES
  - -- THEY KNOW THE PROPS
- WE WANT TO SUPPLY ONE OF THE PROPS -- THEIR BRAND OF CIGARETTES

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TODAY'S SOCIAL GROUPS SPECTRUM

EXTREME CONFORMITY

- 0 -

EXTREME NONCONFORMITY

| TODAY'S SOCIAL GROUPS | MUSIC | CLOTHES | CARS | DRINKS | OVERALL |
|---|---|---|---|---|---|
| • GOODY GOODIES | USED AS BACKGROUND (TOP 40) | THE FASHION LOOK<br>- IZOD<br>- "NICE" | MERCEDES<br>VOLVO<br>CAMARO | MIXED DRINKS<br>LIGHT BEER<br>HEINEKEN | THE LOOK OF THING |
| • PREPS<br>• GQ's<br>• DISCO's | | | | | |
| • ROCKERS | MUSIC AS A LIFE STATEMENT | ANTI-FASHION TO OUTRAGEOUS<br>- OLD BLACK T-SHIRT | USED CAR<br>- FIXED UP<br>- SOUPED UP VAN<br>PICK UP | JACK DANIELS<br>BUDWEISER | THE FEEL OF THINGS |
| • PARTY PARTIES | - IMMERSION<br>- CONCERTS<br>- PERFORMERS SELECTED FOR THEIR IMAGE | | | | |
| • PUNKERS | | - SPIKES ON CLOTHES & HAIR | JUST WHEELS | | |
| • BURNOUTS | | | | | |

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FUBYAS SOCIAL GROUP SPECTRUM

- A FEW T-SHIRT LINES WHICH SEEM TO CAPTURE THE FEELING OF THE SOCIAL GROUPS.

| SOCIAL GROUP | T-SHIRT LINE |
|---|---|
| GOODY GOODIES | - NONE (GOODY GOODIES ARE BORING. T-SHIRTS AREN'T.) |
| PREPS<br>DISCO | - IT'S NOT WHETHER YOU WIN OR LOSE. IT'S HOW YOU LOOK PLAYING THE GAME. |
| ROCKERS | - IT'S IMPORTANT TO HAVE BELIEFS. I BELIEVE I'LL HAVE ANOTHER BEER. |
| PUNKERS | - IF YOU LOVE SOMETHING, SET IT FREE. IF IT DOESN'T COME BACK TO YOU, HUNT IT DOWN AND KILL IT. |
| BURNOUTS | - TIME FLIES WHEN YOU DON'T KNOW WHAT YOU'RE DOING. |

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## FUBYAS SOCIAL GROUPS SPECTRUM

- How the groups feel about each other

-- Groups on CONFORMING end of scale view NONCOMFORMING groups with distaste

-- NONCONFORMING groups tend to resent CONFORMING groups

- Phoney
- The "have's" -- Don't have to struggle for things

-- All groups tend to admire the most non-conforming groups

- Not what group DOES
- But what behavior represents:

-- The "guts" to not conform

-- Not being saddled with any sense of responsibility

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FURYAS SOCIAL GROUP SPECTRUM

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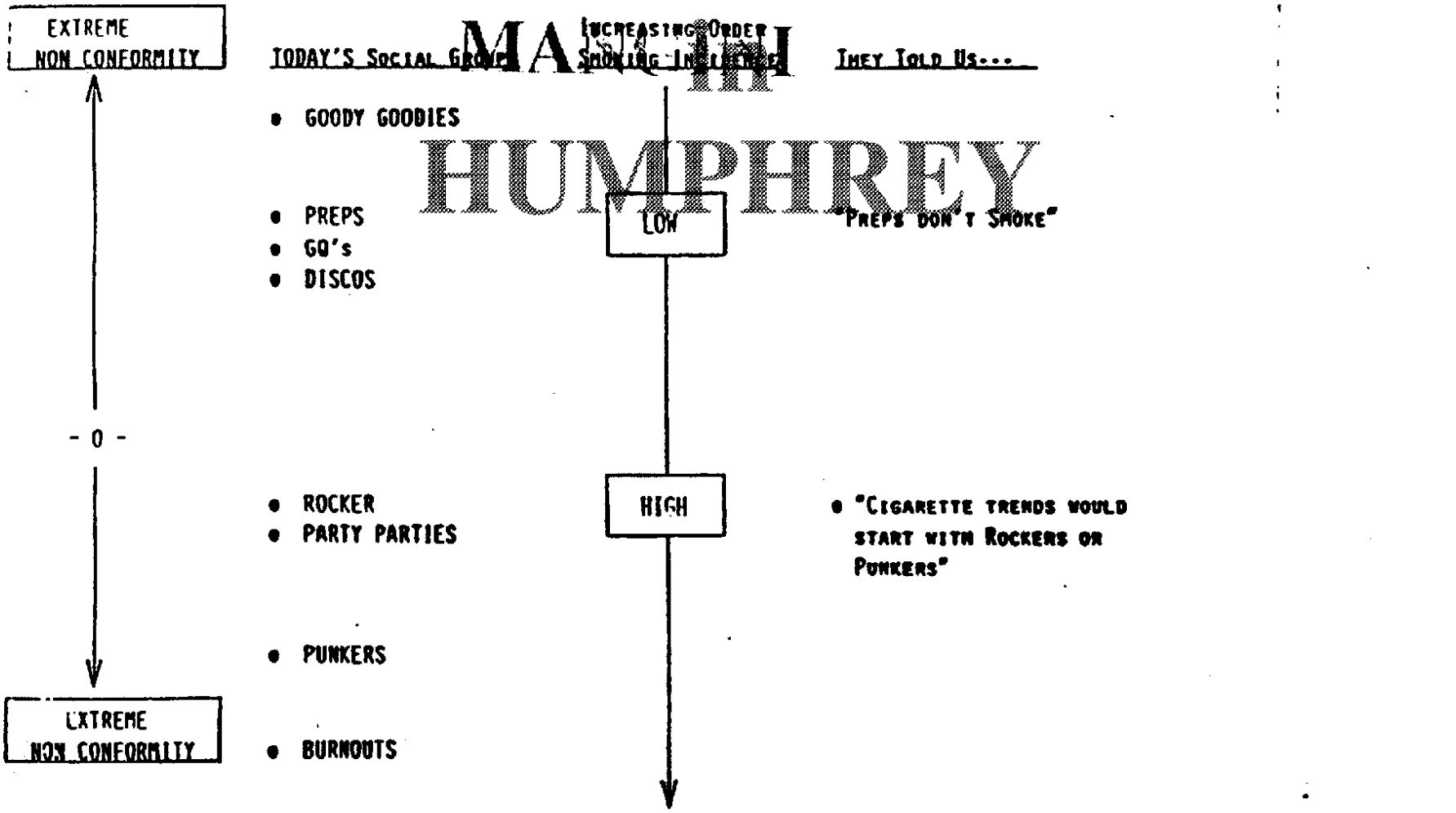


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## FUBYAS SOCIAL GROUP SPECTRUM

- WHY ARE FUBYAS SO WRAPPED UP IN FADS/TRENDS?
- FADS & TRENDS ARE VERY IMPORTANT TO THEM IN SEVERAL WAYS
  - -- THEY ARE CRITICAL TO EACH GROUP'S IDENTITY
    - SERVE AS CUES/SYMBOLS
    - DIFFERENT GROUPS HAVE CREDIBILITY TO START CERTAIN TYPES OF TRENDS
      - NICE CLOTHES -- PREPS
      - REAL BOOZE -- ROCKERS
  - -- FADS & TRENDS HELP SATISFY FUBYAS NEEDS:
    - TO BELONG IN THE GROUP
    - TO BE DIFFERENT VIA THE GROUP
    - FOR EXCITEMENT IN BEING IN ON A TREND
    - FOR SUCCESS IN SHOWING YOU'RE IN ON A TREND

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FADS/TRENDS -- HOW DO THEY START/GROW?

- THE DIFFUSION MECHANISM -- SEED AND SPREAD

1. SEED

- STARTS WITH SMALL GROUP

- BECAUSE OF:

-- ECONOMIC FACTORS
-- SOCIAL CHANGE
-- DEMOGRAPHIC MIX CHANGES
-- INADEQUACY OF PRODUCT CATEGORY ALTERNATIVES
-- DESIRE FOR THE NEW, THE DIFFERENT

- AT THIS STAGE--CALLED A BUZZ

- EXAMPLE: MOHAWK HAIRCUTS IN THE VILLAGE

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FADS/TRENDS (CONT.)

2. SPREAD

- TO GROW/GAIN MOMENTUM--MUST BE PICKED UP BY LEADING EDGE IN OTHER GROUPS
- CALLED CROSSING OVER
- PERHAPS SOFTENED, MODIFIED TO APPEAL
- VARIATIONS OF THE MOHAWK, UPTOWN
- CELEBRITY ADOPTS ONE/MAGAZINES SHOW THEM
- THE FAD BECOMES THE FASHION
- FINAL STEP = ADOPTION BY THE MASSES

-- MAKES IT IN KANSAS CITY
-- THE "BUZZ" HAS MOVED ON.

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FADS/TRENDS (CONT.)

THUS, THOUGH YOU WOULD NOT TARGET A BRAND TO PUNKERS, ONE MIGHT CONSIDER A NEW BRAND IDEA IN LIGHT OF WHETHER OR NOT THERE IS AT LEAST ONE GROUP WHERE THE BRAND COULD FIRST "SEED."

FOR AN ESTABLISHED BRAND, ITS ABILITY TO START A NEW "BUZZ" MAY DEPEND ON THE BAGGAGE IT BRINGS BACK FROM KANSAS CITY.

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BRAND ATTITUDE

THE ABILITY TO IMPROVE PERFORMANCE DEPENDS ON THE ATTITUDES AND BELIEFS THAT SMOKERS 18-20 HAVE ABOUT CIGARETTE BRANDS:

- DOES MARLBORO'S STRENGTH IN THIS SEGMENT MEAN THAT THEY "LOVE IT", THINK THAT IT IS THE "BEST BRAND", OR DO THEY SIMPLY CHOOSE IT "BECAUSE EVERYONE ELSE DOES" (WHY NOT?)
- DO THEY HATE WINSTON OR IS IT SIMPLY IRRELEVANT?
- WHY DO THEY LOVE OR HATE CERTAIN BRANDS?
- WHAT TYPES OF THINGS TURN THEM ON OR OFF?

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## BRAND ATTITUDE

### FINDINGS

1. VERY FEW SMOKERS 18-20 ARE AWARE OF CIGARETTE ADVERTISING--HOW THEY ARE "POSITIONED". BRAND PERCEPTIONS ARE MORE LIKELY TO COME FROM USERS THEY SEE.

2. ATTITUDES ABOUT CIGARETTE BRANDS ARE NOT EXTREME IN MOST CASES --USUALLY THEY ARE NEITHER LOVED NOR HATED. THIS SEEMED TRUE EVEN FOR MARLBORO.

3. THE ONLY ATTITUDES THAT WERE STRONG ENOUGH TO BLOCK A BRAND WERE USUALLY PRODUCT DRIVEN--"THEY ARE REALLY ROUGH BECAUSE THEY'RE NOT FILTERED", OR "THEY TASTE LIKE STALE MARLBOROS", OR "THEY TASTE LIKE COTTON". THIS MAY MEAN OUR PRODUCT PERCEPTIONS NEED TO BE TURNED AROUND -- AS BUDWEISER'S WERE.

4. THE MOST SENSITIVITY WHEN IT COMES TO IMAGERY IS LOOKING PHONEY --OF TRYING TO BE MORE THAN YOU ARE, SOMEWHAT LIKE THE ROCKER'S ATTITUDE TOWARD PREPS.

5. RESPONDENTS TENDED TO ASSOCIATE BRANDS WITH THEIR GROUP STEREOTYPES AS FOLLOWS:

- "PREP" BRANDS: PLAYERS, V. SLIMS, B&H, VANTAGE, NEWPORT.
- "ROCKER" BRANDS: CAMEL, WINSTON, MARLBORO, AND KOOL.

OBVIOUSLY, MARLBORO WAS "ACCEPTED" IN ALL GROUPS.

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## BRAND ATTITUDE

### Conclusions

1. Marlboro can be attacked. They do not have insurmountable strengths in imagery -- they smoke it because everyone else does and they don't see viable, attractive alternatives.

2. There are major opportunities to use nontraditional channels to effectively reach the 18-20 smoker market -- to reach them, speak in their own language including the right symbols and cues, and be relevant. This is the heart of the Jack Daniels and Budweiser success stories and no cigarette company is doing it -- at least not right.

3. It is possible to improve performance with CAMEL, WINSTON, and SALEM; but each has different strengths and weaknesses.

- CAMEL -- Tends to receive more positive comments than our other brands although its non-filter heritage is still prominent. It's strong visual identity makes the brand interesting and lends itself to special promotion. People notice CAMEL. While its non-filter suggests product negatives, it does form a solid link to authenticity and product quality -- its origins in the "good old days" is not a negative.

- WINSTON/SALEM -- Ignored more than hated. These brands carry the baggage of being in Kansas City for so long ... and the user image associated with this. The brands are simply not very interesting -- pack, name, etc. These are seen as clear #2 brands with product negatives.

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MANAGEMENT HISTORY

MARKETING/MDD IMPLICATIONS

THE ABSOLUTE BOTTOM LINE IS THE NEED FOR

I. COMMITMENT

II. IMAGINATIVE STRATEGIES AND EXECUTION.

I. COMMITMENT

THE FOLLOWING QUOTES WERE TAKEN FROM THE "EXPERT WORKSHOP" IN NEW YORK AND EVERYONE IN THE ROOM SMILED AND NODDED.

- TOP MANAGEMENT COMMITMENT

"WITHOUT HAVING SOLD AUGUST BUSCH ON THE NATURE AND THE RISKS OF YOUNGER ADULT MARKETING, WE COULD NEVER HAVE TURNED AROUND BUDWEISER. YOU JUST CAN'T DO IT WITHOUT THE SUPPORT OF TOP MANAGEMENT."

- MIDDLE MANAGEMENT COMMITMENT

"THE PROBLEM WHEN YOU HAVE A GOOD IDEA FOR THE YOUNGER ADULT MARKET AND YOU HAVE TO GO UP THE CHANNEL FOR APPROVAL IT GETS WATERED DOWN VERY QUICKLY. EVERYBODY WANTS TO TAKE RISKS AND BE THE ENTREPRENEUR. BUT WHEN THE BRAND MANAGER'S JOB IS ON THE LINE BECAUSE HE'S GOT TO SELL A CAMPAIGN TO AUGUST WHERE YOU'RE GOING TO THROW BEER AT PEOPLE -- HIS PRODUCT, YOU'VE GOT TO KNOW AUGUST BUSCH -- YOU START TO LOSE THAT RISKING ABILITY INSIDE. THE IDEAS GET WATERED DOWN AND THE COMPANY FAILS AT YOUNGER ADULT MARKETING."

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- JUNIOR LEVEL COMMITMENT

"ONCE AUGUST BUSCH REALLY SHOWED ME WAS COMMITTED TO YOUNGER ADULT MARKETING, DOORS OPENED UP AND NO ONE WAS AFRAID TO COME UP WITH IDEAS. BEFORE THEN, THE IDEAS WERE THERE BUT PEOPLE WERE AFRAID TO TALK ABOUT THEM. THE IDEAS FOR THIS MARKET OFTEN COME FROM JUNIOR PEOPLE. THEY'RE THE ONES WITH THE ENERGY TO PUT INTO FIELD MARKETING. BUT THEY DON'T HAVE THE CREDIBILITY SO SOMEONE AT A HIGHER LEVEL MUST BELIEVE IN THEM AND GET THE IDEAS TO THE TOP PEOPLE."

- WE NEED TO REMEMBER THAT BIG PAY-OFFS MAY TAKE 3 OR 4 YEARS TO ACHIEVE BOTTOM-LINE RESULTS. A SOLID STRATEGY IS NEEDED AS WELL AS THE RESOURCES TO IMPLEMENT IT AND MONITOR ITS PROGRESS. FOR EXAMPLE, THE BUDWEISER PROGRAM HAS GROWN FROM 1 MAN/$1MM TO 18 PEOPLE/$10MM.

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## MARKETING/MDD IMPLICATIONS

### II. STRATEGY AND EXECUTION

THERE ARE MAJOR ISSUES/TRENDS THAT MUST BE CONSIDERED IN DETERMINING THE BEST DIRECTIONS. IN SOME CASES, FURTHER RESEARCH IS NEEDED.

1. THE COOLNESS SEGMENT (AND MENTHOLS) SEEM HEADED FOR INEVITABLE DECLINES IN SHARE. THE BUSINESS THAT IS LEFT WILL GROW INCREASINGLY BLACK.

2. PREPS DON'T SMOKE -- THE MARKET IS LIKELY TO BECOME INCREASINGLY ORIENTED TO THE VALUES OF NON-COLLEGE SMOKERS. ROCKERS. THE SQUEAKY CLEAN LOOKS WILL BE OUT.

3. MARLBORO IS THE KEY TARGET WITH NEWPORT BEING IMPORTANT FOR MENTHOL PRODUCTS IN THE BLACK SUBGROUP.

4. IN MARKETING TO YOUNGER ADULT SMOKERS, THE CRITICAL REACTION IS "HEY, THEY'RE TALKING TO ME." THIS SUGGESTS THAT VIABLE POSITIONINGS AND EXECUTIONAL THEMES MUST MORE THAN JUST "APPEAL" TO YA, THEY MUST APPEAL TO YAS IN A WAY THAT "DIFFERENTIATES" THEM FROM ALL OTHER GROUPS AND DIFFERENTIATES OUR BRAND FROM ALL OTHERS IN A MEANINGFUL WAY.

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MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

5. A PROCESS FOR DETERMINING EFFECTIVE STRATEGIES NEEDS TO BE IDENTIFIED. KEY PROBLEMS MUST BE OVERCOME:

- A SEGMENTATION BY DEMOGRAPHICS, SEGMENT, OR CATEGORY IS NOT ADEQUATE BECAUSE SMOKER MINDSETS GO BEYOND THESE BOUNDARIES.

- POSITIONING AGAINST "DRIVING MOTIVES" -- BELONGING, DIFFERENCE, UPWARD STRIVING, EXCITEMENT AND SEX -- CAN POSE PROBLEMS, SINCE THESE WANTS FORM A TIGHTLY KNIT BUNDLE TO 18-20 SMOKERS. IT IS SOMEWHAT ARTIFICIAL TO SEPARATE THEM -- TO PICK ONE AND POSSIBLY VIOLATE THE OTHERS.

- THE HEART OF AN EFFECTIVE STRATEGY MAY BE AS MUCH THE MEDIUM AS THE MESSAGE -- FIELD MARKETING, SPECIAL EVENTS, ETC., AS OPPOSED TO MAGAZINES.

- WE MUST CIRCUMVENT THE PROBLEMS THAT MAKE BOTH RJR AND OUR ADVERTISING AGENCIES INCREASINGLY OUT OF TOUCH. AS YOUNGER ADULT SMOKERS BECOME INCREASINGLY NON-COLLEGE AND NON-PREPPY, THE ATTITUDINAL GAP BETWEEN MANAGEMENT (EVEN AT LOWER LEVELS) AND 18-20 SMOKERS IS LIKELY TO WIDEN. THIS MAKES IT HARD TO BE CREATIVE AND IMAGINATIVE IN A RELEVANT WAY.

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## MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

CREATIVE AND IMAGINATIVE EXECUTIONS WILL BE THE KEY TO IMPROVING PERFORMANCE.

RJR'S CHALLENGE IN ADDRESSING THIS ISSUE PROBABLY LIES IN ESTABLISHING THE RIGHT PROCESS RATHER THAN SIMPLY CREATING SPECIFIC POSITIONINGS AND EXECUTIONS.

A POSSIBLE PROCESS:

- TALK TO ENOUGH SMOKERS TO ENSURE THAT WE FIND A REAL TARGET GROUP WITH A "COMMON MIND-SET" WORTH PURSUING.
- IDENTIFY SPECIFIC 18-20 SMOKERS WHO ARE PART OF THAT MIND-SET AND HAVE INSIGHTS AND JUDGEMENTS ABOUT PEOPLE WHO ARE LIKE THEM. USE AS A PANEL TO HELP PROVIDE CONTINUOUS FEEDBACK AND DEVELOPMENT EFFORTS ... ADVERTISING, PRODUCT PROMOTION, ETC.
- CHOOSE CREATIVE PROFESSIONALS (AGENCY OR OTHERWISE) WHO RELATE TO THE TARGET MIND-SET AND CAPITALIZE ON GROUP DYNAMICS BETWEEN THE EXPERTS AND THE PANEL.
- USE THE RESULTING SYNERGY TO BE CREATIVE AND IMAGINATIVE WITHIN RJR MANAGEMENT GUIDELINES.

IMAGINE THE POSSIBILITIES
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MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

THERE ARE SEVERAL GENERAL GUIDELINES THAT SHOULD BE CONSIDERED IN ANY EFFORTS TO ADDRESS SMOKERS 18-20.

- USE PULL STRATEGIES -- DRAW CONSUMERS TO THE BRAND. AVOID THE HARD SELL. FEEL FREE TO BE A LITTLE IRREVERENT ABOUT THE BRAND.
- PAT, INSTITUTIONAL ADS LACK APPEAL. BE CLOSER TO THE EDGE. DON'T CHASE A TREND THAT HAS ALREADY HAPPENED.
- A GOOD PRODUCT IS CRITICAL BUT PRODUCT SELLS DON'T WORK. AVOID PROBLEM-SOLUTION POSITIONINGS.
- DON'T BE PHONY. FOR EXAMPLE, ENSURE EXECUTIONS HAVE INTERNAL INTEGRITY IN TERMS OF PREPPY VS. ROCKER LOOKS AND ACTIVITIES.
- AVOID PRICE DISCOUNTING TACTICS.
- MAKE THE MARKETING FIT . . .
  1. TODAY, NOT TOMORROW
  2. STAYING YOUNG/NOT IN THE RUT
  3. ON THE EDGE, NOT THE MIDDLE GROUND

SEE THINGS THROUGH THEIR EYES, NOT OURS.

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MARKETING/MDD IMPLICATIONS

FURTHER RESEARCH IS NEEDED TO QUANTIFY THIS LEARNING. SPECIFIC ISSUES CAN BE IDENTIFIED BY END USERS. GENERAL ISSUES ARE:

1. IMPORTANCE OF VALUES/WANTS (RELATIVE AND ABSOLUTE)
2. HOW ARE THEY EXPRESSED IN SMOKERS' LIVES
3. PERCEPTIONS OF SOCIAL SEGMENTS
4. ASSOCIATIONS OF SYMBOLS/CUES
5. LEVEL/NATURE OF BRAND ATTITUDES
6. BRAND LINKS TO ALL OF THESE

SINCE NEW TRENDS OFTEN ARISE QUICKLY AND SYMBOLS CHANGE, A FUB MONITOR IS NEEDED. IT WILL ALSO BE NECESARY TO MONITOR PROGRESS AGAINST STRATEGIES ADOPTED.

MASTER HUMPHREY

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

IN SUMMARY,

- THERE DOES NOT APPEAR TO BE POSITIVE LEVERAGE AMONG WHITE YA SMOKERS ON EITHER FF ("TASTE") OR FFLT ("LOW TAR").

- COOLNESS/MENTHOL/FF PROPOSITIONS STILL MAY RETAIN SOME POSITIVE LEVERAGEABILITY AMONG BLACK YA SMOKERS.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS

A. YA WOMEN SMOKERS SLOWLY GAINED IMPORTANCE OVER THE LAST DECADE, BUT HAVE HELD EQUAL WITH YAS MEN FOR NEARLY THREE YEARS.

| | % IMPORTANCE WITHIN 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | NEW | TRACKER | | | | | |
| | 1975 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 |
| MALE | 54 | 52 | 52 | 51 | 50 | 50 | 50 |
| FEMALE | 46 | 48 | 48 | 49 | 50 | 50 | 50 |

- IT IS NOT CLEAR WHETHER YA FEMALE SMOKERS WILL CONTINUE TO BE A GROWTH SECTOR, BUT IT IS UNLIKELY THAT THEY WILL BECOME LESS IMPORTANT THAN MALES.

- THIS DOES NOT, HOWEVER, NECESSARILY IMPLY A DEMAND FOR "FEMALE" BRANDS.

- HISTORICAL ANALYSIS SHOWS THE MOST SUCCESSFUL FIRST USUAL BRANDS HAVE BEEN DUAL-SEX.

- YANKELOVICH DATA FROM 1975-80, COVERING 18 TYPES OF PRODUCTS SHOWED THAT THERE WAS LESS INTEREST IN MALE/FEMALE BRANDS OF BEER, CARS, AND CIGARETTES ("THE CONSTANTS IN LIFE") THAN IN ANY OTHER OF THE PRODUCT TYPES.

"BELIEVE THERE SHOULD BE DIFFERENT PRODUCTS FOR MEN AND WOMEN"

| | AGREE % |
|---|---|
| BEER | 9 |
| CIGARETTES | 10 |
| CARS | 11 |
| 18 PRODUCT AVG. | 38 |

IT DOES IMPLY THAT FEMALES AND THEIR KEY WANTS MUST BE GIVEN EQUAL ATTENTION IN YA MARKETING.

MANCINI HONORE

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2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

B. HS vs. College

- THE GREATEST DIFFERENTIATION OF SMOKING AMONG YOUNGER ADULTS APPEARS TO BE THE COLLEGE/NON-COLLEGE SPLIT. RJR DATA IS NOT AVAILABLE, BUT TWO OUTSIDE SOURCES AGREE THAT IN 1983 THREE-FOURTHS OF SMOKERS 18-24 WERE EDUCATED THROUGH HIGH SCHOOL OR LESS.

| SMOKERS 18-24 | 1983 SIMMONS | 1982-84 YANKELOVICH |
|---|---|---|
| HS OR LESS | 78% | 73% |
| PAST HS | 22 | 27 |

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

### B. HS vs. College (CONT'D)

- SEVERAL SOURCES SUGGEST THAT THIS GAP HAS BEEN WIDENING STEADILY.
- YANKELOVICH SHOWS THAT NON-COLLEGE YA SMOKER IMPORTANCE HAS BEEN GROWING BY ABOUT A POINT A YEAR....

| SMOKERS 18-24 | 1980 (79-81) | 1981 (80-82) | 1982 (81-83) | 1983 (82-84) | CHG. |
|---|---|---|---|---|---|
| HS OR LESS | 70% | 72% | 73% | 73% | +3 |
| PAST HS | 30 | 28 | 27 | 27 | -3 |
| IN COLLEGE | 14 | 13 | 13 | 12 | -2 |

WHICH IMPLIES THAT INCIDENCE IS NEARLY TWICE AS HIGH AMONG THE NON-COLLEGE AND ALSO A GROWING GAP.

SMOKING DEVELOPMENT (YANKELOVICH)

| | 1983 (82-84) | |
|---|---|---|
| 18-24 TOTAL | 100 | |
| HS OR LESS | 125 | 1.9:1 |
| PAST HS | 67 | |
| IN COLLEGE | 58 | |

ON NFO, IT APPEARS THAT THE GAP IS SIMILAR AT AGES 18-20 AND HAS BEEN HOLDING OR SLOWLY EVOLVING FOR A DECADE.

| INDEX | 1975 | 1983 |
|---|---|---|
| 18-20 TOTAL | 100 | 100 |
| HS | 131 | 145 |
| COLLEGE | 63 | 57 |

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2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

B. HS vs. COLLEGE (CONT'D)

- IN TERMS OF IMAGERY,

  YANKELOVICH DATA INDICATE THAT COLLEGE IS NOT A KEY ASPIRATION OF THE HS-EDUCATED SMOKER ANY MORE THAN THE NON-COLLEGE ROUTE APPEALS TO SMOKERS WHO GO TO COLLEGE.

22-16A. "THE WAY FOR YOUNG PEOPLE TO GET AHEAD IN LIFE IS TO...."

| SMOKERS | GO TO COLLEGE | LEARN A SKILL |
|---|---|---|
| 18-20 TOTAL | 44% | 55% |
| 18-24 TOTAL | 42 | 57 |
| HS OR LESS* | 31 | 69 |
| PAST HS | 68 | 31 |
| IN COLLEGE | 65 | 31 |

*MAY INCLUDE HS STUDENTS WHO PLAN TO ATTEND COLLEGE.

SOURCE: YANKELOVICH MONITOR, 1980-83 COMBINED.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

THESE QUANTIFIABLE RESULTS SUGGEST THAT CURRENTLY, THERE ARE THREE KEY SECTORS WHICH MAY BE LEVERAGEABLE AMONG YOUNGER ADULT SMOKERS OF THE MID-1980'S:

1. YA FEMALES, WHO ARE LIKELY TO EQUAL OR EXCEED MALES IN IMPORTANCE...

   - "WANTS" WHICH ARE KEY TO FEMALES, BUT MAY ALSO BE HELD BY MALES, SHOULD BE MORE LEVERAGEABLE THAN LARGELY MALE WANTS.

   - NOT NECESSARILY "FEMALE BRANDS"

2. YA BLACK SMOKERS AFFORD POSSIBLE LEVERAGEABILITY OF PRODUCT BASED COOLNESS/MENTHOL/FF BENEFITS AS WELL AS IMAGERY ELEMENTS.

3. THE NON-COLLEGE SMOKER IS THREE-FOURTHS OF THE TOTAL YA TARGET, A TREND WHICH APPEARS TO STILL BE EVOLVING. THIS SUGGESTS THAT WANTS, EXECUTIONS, CUES AND SYMBOLS WHICH SUIT THE NON-COLLEGE IDENTITY MAY BE MORE LEVERAGEABLE AMONG YAS THAN THE COLLEGE-ORIENTED OPTIONS.

LESS QUANTIFIABLE BUT PERHAPS MORE MEANINGFUL IS THE CONTENT OF YOUNGER ADULT SMOKER LIFESTYLES, ATTITUDES, AND VALUES -- THEIR MINDSET TODAY.

MANGINI HERMLICH

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## DIFFERENTIATING YAS TODAY FROM YESTERDAY

HUMBERT
CHANGING

### How FUBYAS See "Their Generation" vs. The "Older Generation"

- We are much more open about EVERYTHING
- We have so much FREEDOM
  - -- We don't need to rebel
  - Grow up faster -- more options ("privileges")
  - Liberal attitudes about sex
  - Don't get married, have babies as young ("responsibilities")
  - Into drugs and drink too much
- But with freedom, comes STRESS
  - Responsible for choices
  - Make mistakes earlier
- Our generation is going to hustle for the material things -- expensive toys -- not save the world
- Byword of the generation = goals. We don't respect peers w/o goals -- but almost any goals will do
- The "Older Generation" is in a rut.

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## "FUBYAS GENERATION" vs. "OLDER GENERATION"

MARKETING RELEVANCE

- NO REBELLION--SO MUCH FREEDOM
  -- SMOKING NOT REBELLION




- NO REBELLION--NO GENERATION GAP
  -- PARENTS' BRANDS OK

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## DIFFERENTIATING WITHIN YAS TODAY: FUBYAS VS. SWITCHERS

THROUGHOUT THIS NEXT SECTION, WE WILL BE TALKING ABOUT:

18-20 YEAR OLD SMOKERS = FUBYAS

21-24 YEAR OLD SMOKERS = SWITCHERS

NOT ONLY HAVE 21 YEAR OLDS ALREADY CHOSEN THEIR FUB, BUT THEIR SWITCHING BEHAVIOR IS MARKEDLY DIFFERENT.

NFO NET SWITCHING: 1976-83

| | 18-20 | 21-24 |
|---|---|---|
| TOTAL RJR | -5.98 | +1.39 |
| TOTAL P. MORRIS | +7.82 | -1.67 |
| GAP | -13.80 | +3.06 |

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## DIFFERENCES WITHIN YAS ON KEY NEEDS

- ITS MEANING AND NATURE TO FUBYAS
- THE DIFFERENCE FUBYAS VS. SWITCHERS
- RELEVANCE TO MARKETING
- FIVE KEY NEEDS
  - -- BELONGING
  - -- BEING DIFFERENT
  - -- UPWARD STRIVING
  - -- EXCITEMENT
  - -- SEX
- ARE HIGHLY INTERRELATED

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## BELONGING

- BELONGING IS ENORMOUSLY IMPORTANT TO FUBYAS
- AND THIS NEED DIFFERENTIATES THEM FROM SMOKERS IN OLDER AGE GROUPS

BELONG/FIT IN



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W. R. Eddins
K. L. Freeman
P. B. Fulk
P. E. Galyan
E. R. Hardman
J. R. Hribar
D. H. Lawrence
J. M. Lewis
J. V. Marshall
T. E. Miller
L. A. Minar
J. R. Moore
W. R. Penick
J. H. Saylor
A. H. Selsm
J. A. Skinner
J. T. Watkins
D. F. White
L. P. Yancey
B. W. Zabel

dated June 6, 1

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November 1, 1984

Distribution

FROM: D. S. Burrows

SUBJECT: FUBYAS PRESENTATION

The First Usual Brand Younger Adult Smokers (FUBYAS) presentation has been scheduled for Marketing Sciences on November 14, 1984, from 8:30 to 10:30 a.m. This meeting has been moved to the large conference room on the 10th Floor.

The objective of this presentation is to provide the needed understanding of younger adult smokers in order to develop action plans which will help PJ improve its performance in this key age group.

See you there!

Diane

Diane S. Burrows
Marketing Development Department

DSB:df

cc: R. C. Nordine
J. Whaley

proudly presented by PJ HUMIDIFIER

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September 17, 1984

TO: R. C. Nordine

FROM: D. S. Burrows

SUBJECT: TRANSACTIONAL ANALYSIS

Attached is a summary of basic Transactional Analysis (TA) structure and tenets. It is bulky but easy reading.

Note that the driving motivation is "getting strokes" -- positive if possible but negative is better than none. In fact, some people can only handle negative strokes. Thus "rebellion" as a reason for smoking can have a double payoff: negative strokes from parents, school, etc. and, perhaps, positive strokes from other "rebels" among peers. This fits your idea that social permission to smoke (e.g., by schools) is likely to discourage rather than encourage smoking.

The second section (on Transactions) could relate to the messages delivered in advertising as well as between individuals and may not be as pertinent to your phase of the project as later on, except for the idea of congruence discussed in the Journal of Advertising Research article you've already seen.

Diane

Diane S. Burrows
Marketing Development Department

DSB:df

Attachment

cc: J. Whaley

HOUSE COPY

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# SUCCESSFUL MARKETING

# TO

# YOUNGER ADULT SMOKERS

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1. WE CAN DO IT (OTHERS HAVE).

2. HOW WE CAN DO IT.

- START WITH BASIC PRINCIPLES
  - GETTING ON TARGET (DIFFERENTIATION)
  - USING GROWTH SECTORS (LEVERAGEABILITY)
- KNOW THE TARGET INSIDE OUT
  - MARKET TRENDS
  - MINDSETS
- MAKE IT LOOK RIGHT TO YAS EYES
  - "SEGMENTS" YAS'S KNOW
  - CUES AND SYMBOLS

3. THE BOTTOM LINE

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1. WE CAN DO IT -- OTHERS DID!

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in HUMPHREY

TWO EXAMPLES OF BRANDS THAT DID IT -- AND HOW:

1. JACK DANIEL'S -- THE MARLBORO OF BOURBONS
   - UNEXPECTED POSITIONING AND EXECUTION
   - CONSISTENT, LONG TERM MARKETING EFFORT

2. BUDWEISER -- TURNING A BIG BRAND AROUND

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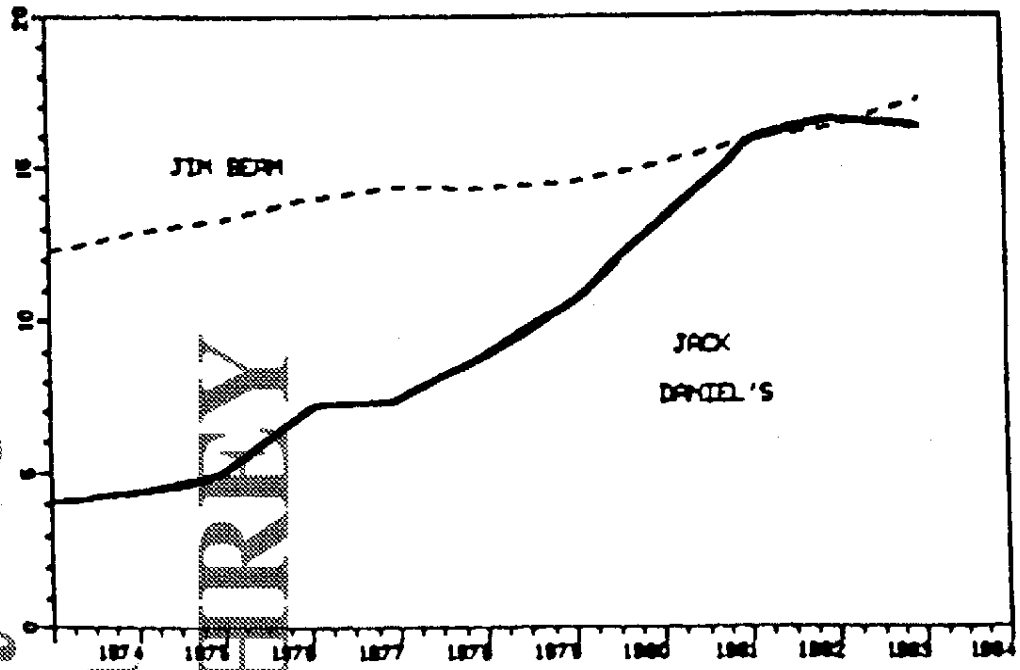
## JACK DANIEL'S

SHARE OF ALL BOURBON SALES




Source: Maxwell Data (1983 Estimated)

- AD AGE SAYS JACK DANIEL'S IS

  "UNDOUBTEDLY ONE OF THE CLEAREST EXAMPLES OF SUCCESSFUL MARKETING IN A DECLINING CATEGORY."

- JD'S SALES GAINS THROUGHOUT THE 1970'S AVERAGED 15% GROWTH PER YEAR, MORE THAN TRIPLING ITS VOLUME OVER THE DECADE.

- JD ROSE FROM #9 AMONG BOURBONS IN 1974 TO #2 BY 1979 AND HAS SINCE RUN NECK AND NECK FOR #1 WITH JIM BEAM, THE LONG TIME MARKET LEADER.

- JD MANAGEMENT SAYS THE BRAND WAS AFFECTED IN 1983 BY PRICE SENSITIVITY "WITHIN CERTAIN SEGMENTS WHICH HAD BEEN AN EXPANDING PART OF THE BRAND'S FRANCHISE." (LIQUOR INDUSTRY MARKETING, 1984, P. 46)

WE SUSPECT THAT THOSE "EXPANDING SEGMENTS" WERE YOUNGER ADULTS.

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- JD'S AGE PROFILE ALSO RESEMBLES MARLBORO'S AND SUGGESTS THAT THE BRAND'S GROWTH MAY BE A FUNCTION OF AGING AND BRAND LOYALTY, SIMILAR TO MARLBORO OR NEWPORT (WHEREAS JIM BEAM IS RIDING THE HEAVY CONSUMPTION AGES).

BRAND USED "MOST OFTEN" (SMRB)

| | JACK DANIEL'S | | | | |
|---|---|---|---|---|---|
| | SHARE | | BDI | | JIM BEAM |
| | 1980 | 1983 | 1980 | 1983 | BDI 1983 |
| 18-24 | 41% | 49% | 156 | 150 | 78 |
| 25-34 | 34 | 40 | 127 | 123 | 92 |
| 35+ | 18 | 23 | 67 | 72 | 111 |
| 18+ | 27% | 32% | 100 | 100 | 100 |

- ON A "SHARE OF DRINKS" RATHER THAN "USUAL BRAND" BASIS, HEUBLEIN DATA SHOWS AN EVEN MORE DRAMATIC SKEW FOR JD.

| | SHARE OF BOURBON DRINKS CONSUMED 1982-83 | |
|---|---|---|
| | % | BDI |
| LEGAL AGE TO 34 | 52% | 186 |
| 35-49 | 16 | 57 |
| 50+ | 6 | 21 |
| TOTAL | 28% | 100 |

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JD'S TARGET = YA

- JD TARGETS YOUNGER ADULTS, ALTHOUGH ITS ORIGINAL IDEA IN 1954 WAS INTENDED TO CAPITALIZE ON MIDDLE-AGED MEN'S NOSTALGIA FOR "MOM'S APPLE PIE".

- IT'S "MARKETING STRATEGY HAS ENABLED JD TO DO EXTREMELY WELL AMONG WELL-EDUCATED, AFFLUENT 18-34 YEAR OLD MALES" -- ESPECIALLY COLLEGE MALES "BY WHOM IT IS PERCEIVED AS A STATUS SYMBOL". (AD AGE 8/4/80)

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## JD'S POSITIONING

- JD IS TO BE SEEN AS "THE MOST CAREFULLY MADE, HIGHEST QUALITY, SUPERPREMIUM BRAND OF AMERICAN STRAIGHT WHISKEY ON THE MARKET." (AA 8/4/80)

- "WE HAVE HAD A FIRM POLICY OF NEVER DISCOUNTING OUR PRODUCT (JD EXEC QUOTED IN AA 8/4/80).

- A COMPANY DOCUMENT WRITTEN IN 1955 SAID THE JACK DANIEL'S IMAGE SHOULD REFLECT "A SOFT-SPOKEN RESTRAINED PERSONALITY THAT ATTRACTS SIMPLY BECAUSE IT NEVER SEEMS TO TRY TOO HARD". (AA 7/26/84)

## JD'S CONCEPT

"THEY MADE IT RIGHT IN THE GOOD OLD DAYS"

ITS AD CAMPAIGN CONVEYING THIS MESSAGE APPEARED IN 1954 AND "HASN'T MOVED MORE THAN AN INCH OR TWO IN 25 YEARS." (AD AGE 7/26/84)

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WE CAN'T BLAME THE BOYS for having a water fight now and then. If you worked in Jack Daniel's rickyard, you'd start one too.

Looking after a burning hard maple rick is a hot job. But it's one we can't do without. You see, we take the charcoal that results and use it to help smooth out our whiskey. That's done by seeping it down through huge vats packed tight with this charcoal. Just a taste of Jack Daniel's, we think, and you'll agree it's worth a water fight or two.

CHARCOAL MELLOWED DROP BY DROP

Tennessee Whiskey • 90 Proof • Distilled and Bottled by Jack Daniel Distillery
Lem Motlow Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352
*Placed in the National Register of Historic Places by the United States Government*

- THE ADS "SEEMED REVOLUTIONARY AT THE TIME -- THE LONG COPY WITH NO HEADLINE, SMALL DRAWING OF THE BOTTLE, BLACK AND WHITE PHOTO, FRACTIONAL-PAGE SIZE -- NOTHING ELSE WAS QUITE LIKE IT. OUR ADS LOOKED A BIT ODD AMONG THE BOTTLE-AND-GLASS AND BEAUTIFUL PEOPLE ADS." (AA 7/26/84)

- VISUALS AND COPY ARE "DOWN HOME" AND NEIGHBORLY -- UNDERSTATED AND AUTHENTIC.

- ITS PRODUCT IS "CHARCOAL MELLOWED DROP BY DROP" FOR "SIPPIN' SMOOTHNESS".

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OF THE 2,531 CAVES in Tennessee, this one in Moore County is particularly prized.

It's fed, you see, by an underground, iron-free spring flowing at 56° year round. Mr. Jack Daniel, a native of these parts, laid claim to the cave in 1866. And from that year forward, its water has been used to make Jack Daniel's Whiskey. Of course, there are hundreds of caves just as lovely. But after a sip of Jack Daniel's, you'll know why this one is valued so highly.

CHARCOAL MELLOWED DROP BY DROP

Tennessee Whiskey • 90 Proof • Distilled and Bottled by Jack Daniel Distillery
Lem Motlow Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352
Placed on the National Register of Historic Places by the United States Government

JD HAS A "MYSTIQUE."

THOUGH NEVER A FORMAL PART OF JD'S MARKETING EFFORT, THE BRAND HAS BENEFITTED FROM ITS ASSOCIATION WITH CELEBRITIES SUCH AS HUMPHREY BOGART, SAM RAYBURN, AND EVERETTE DIRKSEN, WHO WERE SUPPOSED TO HAVE BEEN DEVOTEES OF THE BRAND. (AA 8/4/80)

MORE RECENTLY: "MY TWO FAVORITE TENNESSEANS -- JACK AND CHARLEY DANIELS."

- BECAUSE OF PRODUCTION CAPACITY, JD HAS BEE PUT ON ALLOCATION AT TIMES, LENDING IT A "HARD TO GET" IMAGE. (AA 8/4/80)

- BUT JD HELPS THE MYSTIQUE. ITS DISTILLERY IS ADVERTISED TO BE:

  - NESTLED IN THE FOOTHILLS OF THE CUMBERLAND MOUNTAINS AT LYNCHBURG, TN (POP. 361).

  - IN A DRY COUNTY (THEREFORE "ILLICIT").

  - ON THE U.S. NATIONAL REGISTER OF HISTORIC PLACES.

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A LOAD OF HARD MAPLE is a welcome sight to our rickyard manager because it takes a lot to properly smooth out Jack Daniel's.

Neighbors with a use for extra money can count on our buying their hard maple. You see, it takes a bunch of wood to make enough charcoal to fill just one of the charcoal mellowing vats we seep our whiskey through. But the sippin' smoothness it gives Jack Daniel's is well worth all we do to keep a good supply.

CHARCOAL MELLOWED
DROP
BY DROP

Tennessee Whiskey · 90 Proof · Distilled and Bottled by Jack Daniel Distillery
Lem Motlow, Prop., Route 1, Lynchburg (Pop. 361), Tennessee 37352

Placed on the National Register of Historic Places by the United States Government

JD'S CAMPAIGN GENERATES SOME OF THE HIGHEST AWARENESS NUMBERS IN THE LIQUOR INDUSTRY (AA 7/26/84).

FOR EXAMPLE, IN A FIRST-HALF 1984 STUDY, JD RECEIVED MORE MENTIONS THAN ANY OTHER BRAND WHEN CONSUMERS WERE ASKED TO NAME THE FIRST LIQUOR ADVERTISING THAT CAME TO MIND -- NOT JUST BOURBON (IMPACT 9/1/84, P. 9).

THIS DOES NOT SEEM TO TOTALLY RESULT FROM SPENDING.

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## JD MEDIA

- JD IS A TOP SPENDER AMONG BOURBONS, BUT IS ABOUT MATCHED BY 2-3 OTHER BRANDS. ITS "SHARE OF VOICE" ROUGHLY EQUALS ITS SHARE OF SALES.

AD EXPENDITURES (MAGAZINE/NEWS/OOH)

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| DOLLARS (MM) | $2.9 | $3.5 | $4.5 | $5.1 | $5.0 |
| SHARE OF BOURBON | | | | | |
| SPENDING | 10% | 11% | 14% | 16% | 17% |
| SALES | 11 | 13 | 16 | 16 | 16 |

- JD EMPHASIZES MAGAZINES, BUT SPENDS MORE OOH DOLLARS THAN ANY OTHER BRAND. UNLIKE ITS COMPETITORS, IT HAS NOT TOUCHED NEWSPAPERS UNTIL VERY RECENTLY.

| SPENDING PROFILE | | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| J. DANIEL'S | MAG. | 72% | 74% | 79% | 79% | 81% |
| | NEWS. | -- | -- | -- | -- | -- |
| | OOH | 28 | 26 | 21 | 21 | 19 |
| ALL BOURBON | MAG. | 61 | 61 | 59 | 60 | 65 |
| | NEWS. | 13 | 13 | 14 | 11 | 11 |
| | OOH | 26 | 26 | 29 | 29 | 24 |

- JD DOES CUSTOM SELECT ITS BOOKS TO REFLECT BOTH ITS TARGET AND ITS IMAGE.
  - -- YOUNGER ADULT
    - JD PUTS MORE "PAGES" IN ROLLING STONE THAN ANY OTHER BOOK (1982).
    - THE LIKES OF GAMES, DISCOVER, AND MOTHER EARTH NEWS, WHICH OTHER BOURBONS RARELY TOUCH.
  - -- "PREMIUM"
    - DOUBLE OTHER BOURBONS' EXPOSURE IN BIG BUSINESS (E.G. FORTUNE) AND EDUCATED UPSCALE (E.G., HARPERS, ATLANTIC).
    - LOW EMPHASIS ON "TRADITIONAL" BOURBON VEHICLES LIKE SPORTS ILLUSTRATED OR SOUTHERN LIVING.
    - NO BLACK BOOKS.

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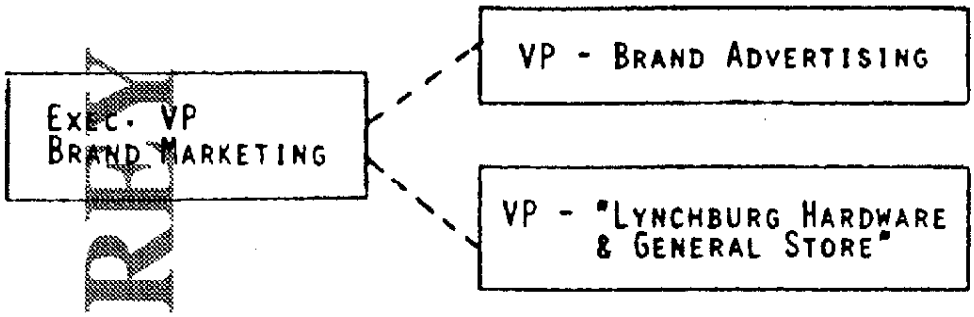
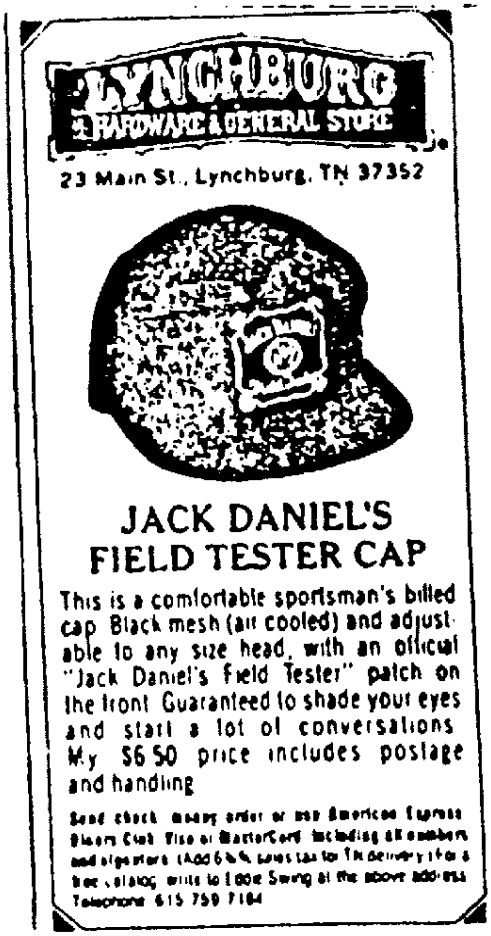
## JD PROMOTIONS

PROMOTIONAL MERCHANDISE, ESPECIALLY CLOTHING, IS A MAJOR ELEMENT IN JD'S MARKETING PROGRAM.

- PROMO ITEMS ARE MARKETED THROUGH THE "LYNCHBURG HARDWARE AND GENERAL STORE", WHICH IS HEADED BY A CORPORATE VP.




- THE "LYNCHBURG STORE" RUNS ITS OWN SEPARATE, NATIONAL CAMPAIGN FOR WEARABLES.

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JD IS AN EXAMPLE OF A VIABLE POSITIONING, EXECUTED IN A "NON-STANDARD" BUT AUTHENTIC AND UNPRETENTIOUS WAY, WHICH REACHES YA CONSUMERS NOT ONLY THROUGH THEIR BOOKS, BUT BY CONVERTING YA'S INTO WALKING BILLBOARDS. THEY STARTED WITH A GOOD IDEA AND STUCK TO IT.

BUDWEISER, IN CONTRAST, IS A STORY OF HAVING TO RE-THINK THE YA MARKET WHEN THE GOING GOT ROUGH.

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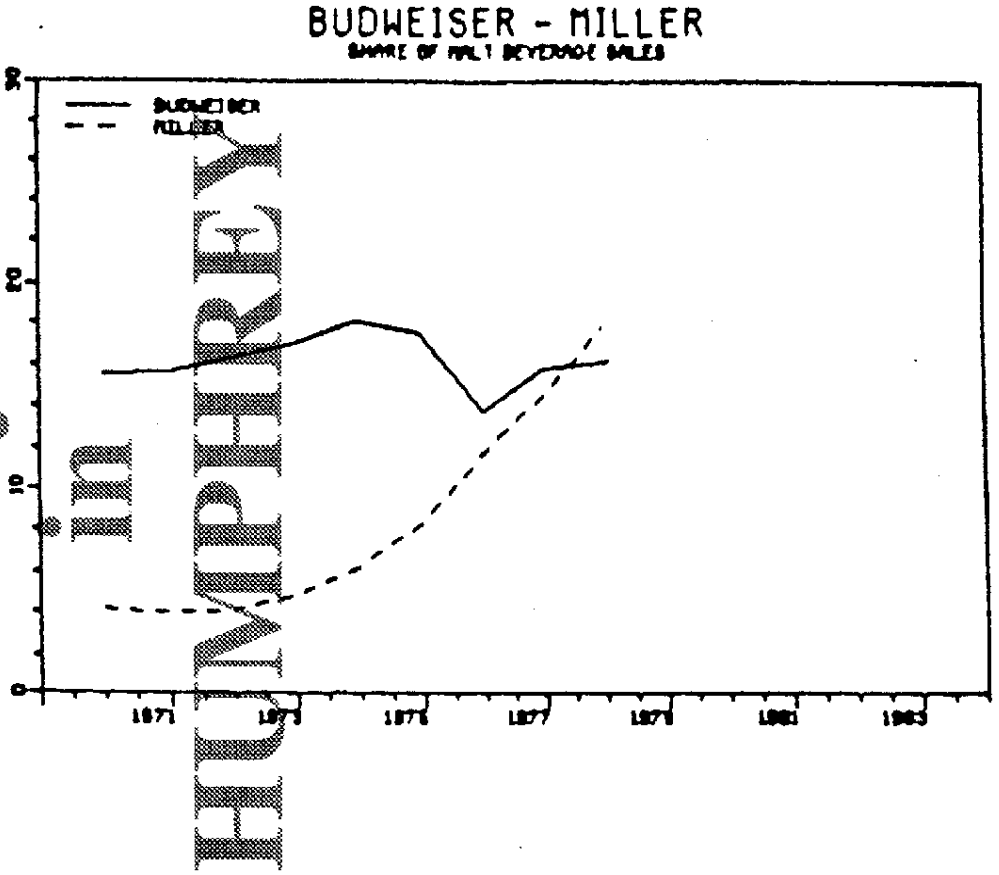
- BUDWEISER LOST MARKET LEADERSHIP TO MILLER IN 1978, ALTHOUGH THE HANDWRITING WAS ON THE WALL BY 1976, WHEN IT GOT A 4-POINT WALLOP FROM MILLER.




- IT WAS IN 1976 THAT AUGUST BUSCH DECIDED TO BITE THE BULLET AND GO TO WORK ON YOUNGER ADULTS.

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- "In 1976, A-B realized that to get the 18-24 market, they would have to develop plans specifically for this segment." In 1977:

  - A national "test" coordinator for college/young adult field-marketing was hired with a budget of $1MM.

  The decision was made to create separate YA versions of Bud's TV, radio, and print campaign.

- Every year since 1977, A-B has increased its YA commitment, which reached 18 staff and $10MM by 1984.

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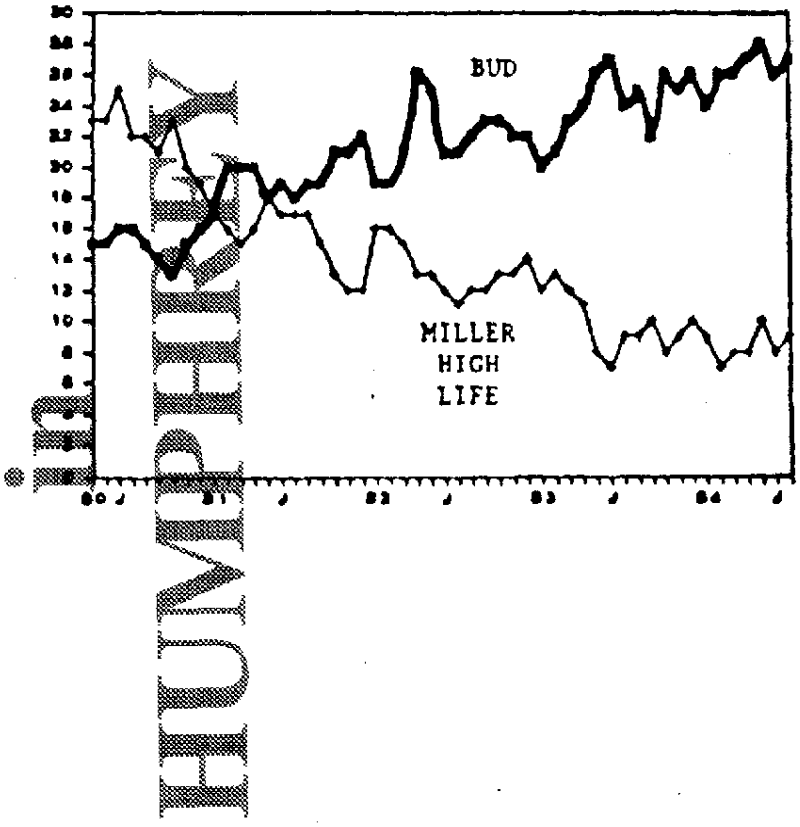
- DESPITE STEADFAST AND INCREASING COMMITMENT, IT WAS 1981 -- 3 TO 4 YEARS -- BEFORE BUD CAUGHT MILLER AMONG YOUNGER ADULTS.

REGULAR BRAND USAGE
AGE 18-24




- BUT WHEN THEY DID, THE PAYOFF WAS BIG.

| | 1980 | 1983 |
|---|---|---|
| BUDWEISER | 15 ——> | 26 |
| HIGH LIFE | 22 <—— | 9 |

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WHAT DID BUD DO?

1. THEY APPEAR TO HAVE UPPED THEIR OVERALL ADVERTISING.

BUD ALMOST DOUBLED ITS "SHARE OF VOICE" IN THE INDUSTRY (ESSENTIALLY MATCHING MILLER FOR THE FIRST TIME IN 1982).

BUDWEISER - AD SPENDING
(MAG/NEWS/OOH/TV/RADIO)

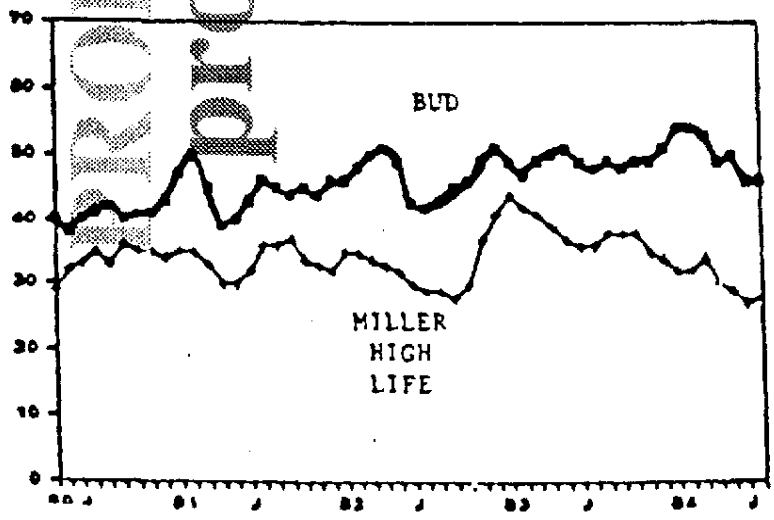
| | $MM | | | | % BEER INDUSTRY | | | |
|---|---|---|---|---|---|---|---|---|
| BRAND FAMILY | 1979 | 1980 | 1981 | 1982 | 1979 | 1980 | 1981 | 1982 |
| BUDWEISER | 36.5 | 49.0 | 67.7 | 104.7 | 9.9 | →11.7 | →14.6 | → 9.6 |
| MILLER | 59.0 | 76.0 | 84.4 | 109.0 | 16.0 | 18.1 | 18.2 | 20.4 |

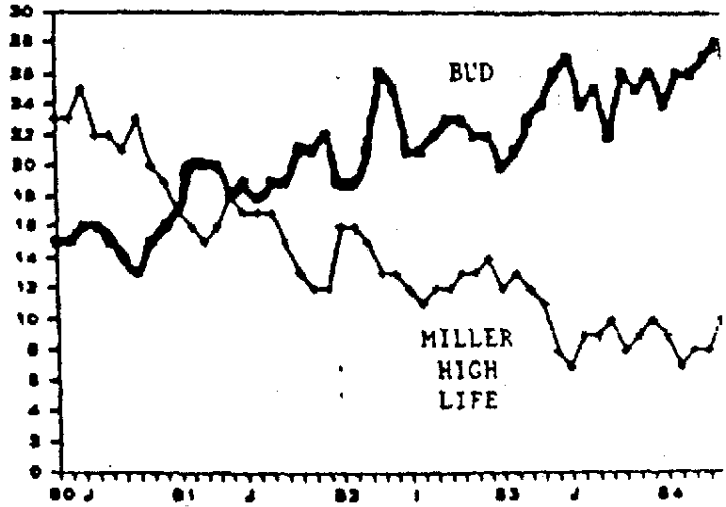
SOURCE: IMPACT DATABOOK

BUT YOUNGER ADULT AD AWARENESS PER SE WAS NOT THEIR PROBLEM VS. MILLER AND NOT THE SOLUTION TO THEIR PROBLEM.

AD AWARENESS 18-24

REG. BRAND USAGE 18-24

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2. THEY HEAVIED UP FIELD MARKETING AND PROMOTIONS.

- THEIR LABEL (A YA STRENGTH) WENT ON PILLOWS, T SHIRTS, EVEN JEANS.

| | PERCEPTIONS 18-24 | | |
|---|---|---|---|
| | BUD | MILLER H.L. | MILLER LITE |
| ATTRACTIVE PKG. | 38% <— | 26% | 19% |

- CAMPUS EVENTS, BAR NIGHTS, SOFTBALL TEAMS AND STREET SCENES -- GIVING THEIR COORDINATOR AUTHORITY TO IMPLEMENT AS HE SAW FIT (WITHIN GUIDELINES) TO CAPITALIZE ON A FIELD OPPORTUNITY ALMOST OVERNIGHT.

- THEY WENT WHERE THE YA WERE, IN SMALL AS WELL AS BIG WAYS.

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3. THEY DIDN'T REPOSITION THE BRAND, THEY RE-EXECUTED IT FOR THE YOUNGER ADULT MARKET. THEY LEFT THE COPY AND CHANGED THE MESSAGE.

- BUD PRODUCED SPECIAL TV SPOTS FOR YA-TARGETED SHOWS, STARTING ON SATURDAY NIGHT LIVE WITH "TASTE BUD" -- AN IMPROMPTU-LOOKING AD WITH PEOPLE DRESSED AS TASTE BUDS IN A GIANT MOUTH, TOSSING BACK PIZZA INGREDIENTS WHICH WERE WASHED DOWN BY THROWING THE PRODUCT IN THEIR FACES. IT LOOKED LIKE PART OF THE PROGRAM.

- TODAY "FOR ALL YOU DO" IN THE GENERAL MARKET IS TREATED AS A STRAIGHT, EVEN INSPIRATION LINE. BUT FOR YA "ALL YOU DO" CAN MEAN ANYTHING.

- ON RADIO, THE BUD COMMERCIAL IS NOT A JINGLE BUT A ROCK SONG -- NOT A YEAR OLD, POPULAR ROCK SONG, BUT ONE FROM THE LATEST HEAVY METAL ALBUM -- ON THE RIGHT STATIONS.

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ON THE BOTTOM LINE, YA PERCEPTIONS OF BUD DID CHANGE.

IN 1980, MILLER HAD THE KEY PERCEPTIONS ON ITS SIDE.

- ALL PRODUCT PERCEPTIONS
- "YOUTHFUL" IMAGE
- PEER PRESSURE

| YA PERCEPTIONS | 1980 BUD | | 1980 HIGH LIFE |
|---|---|---|---|
| **IMAGE** | | | |
| MASCULINE | 62 | <- - | 57 |
| REGULAR PERSON | 66 | | 63 |
| SELF CONFIDENT | 58 | | 55 |
| PRESTIGE | NA | | NA |
| MODERN/YOUTHFUL | 54 | ——> | 63 |
| **PEER PRESSURE** | | | |
| POPULAR | 44 | ——> | 66 |
| **PRODUCT** | | | |
| SUPERIOR TASTE | 43 | ——> | 65 |
| SMOOTH TASTE | 48 | ——> | 69 |
| FULL-BODIED TASTE | 50 | ——> | 65 |
| LIGHT TASTE | 33 | ——> | 59 |
| HIGH QUALITY | 56 | ——> | 67 |
| **VALUE** | | | |
| GOOD VALUE | 37 | | 43 |
| FREQUENTLY ON SALE | 36 | | 31 |
| YA REG. BRAND SHARE | 15 | ——> | 22 |

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BY 1983, BUD HAD ACCOMPLISHED 3 KEY CHANGES:

1. DIFFERENTIATION OF BUD'S SUPERIORITY AS A BEER WITH FULL-BODIED TASTE (NOTE THIS IS NOT OPPOSITE TO "LIGHT").

2. PRODUCT QUALITY PERCEPTIONS WHICH MEAN "GOOD VALUE" REGARDLESS OF PRICE.

3. THE SIDE BENEFIT OF PEER PRESSURE.

| YA PERCEPTIONS | 1980 BUD | 1980 HIGH LIFE | 1983 BUD | 1983 HIGH LIFE | CHANGE BUD | CHANGE HIGH LIFE |
|---|---|---|---|---|---|---|
| IMAGE | | | | | | |
| MASCULINE | 62 | 57 | 71 | 52 | + 9 | - 5 |
| REGULAR PERSON | 66 | 63 | 65 | 60 | - 1 | - 3 |
| SELF CONFIDENT | 58 | 55 | 54 | 49 | - 4 | - 6 |
| PRESTIGE | NA | NA | 61 | 55 | NA | NA |
| MODERN/YOUTHFUL | 54 | 63 | 61 | 58 | + 7 | - 5 |
| PEER PRESSURE | | | | | | |
| POPULAR | 44 | 66 | 63 | 52 | +19 | -14 |
| PRODUCT | | | | | | |
| SUPERIOR TASTE | 43 | 65 | 58 | 50 | +15 | -15 |
| SMOOTH TASTE | 48 | 69 | 50 | 65 | + 2 | - 4 |
| FULL-BODIED TASTE | 50 | 65 | 64 | 49 | +14 | -16 |
| LIGHT TASTE | 33 | 59 | 33 | 57 | NC | - 2 |
| HIGH QUALITY | 56 | 67 | 60 | 52 | + 4 | -15 |
| VALUE | | | | | | |
| GOOD VALUE | 37 | 43 | 39 | 30 | + 2 | -13 |
| FREQUENTLY ON SALE | 36 | 31 | 35 | 30 | - 1 | - 1 |
| YA REG. BRAND SHARE | 15 | 22 | 26 | 9 | +11 | -13 |

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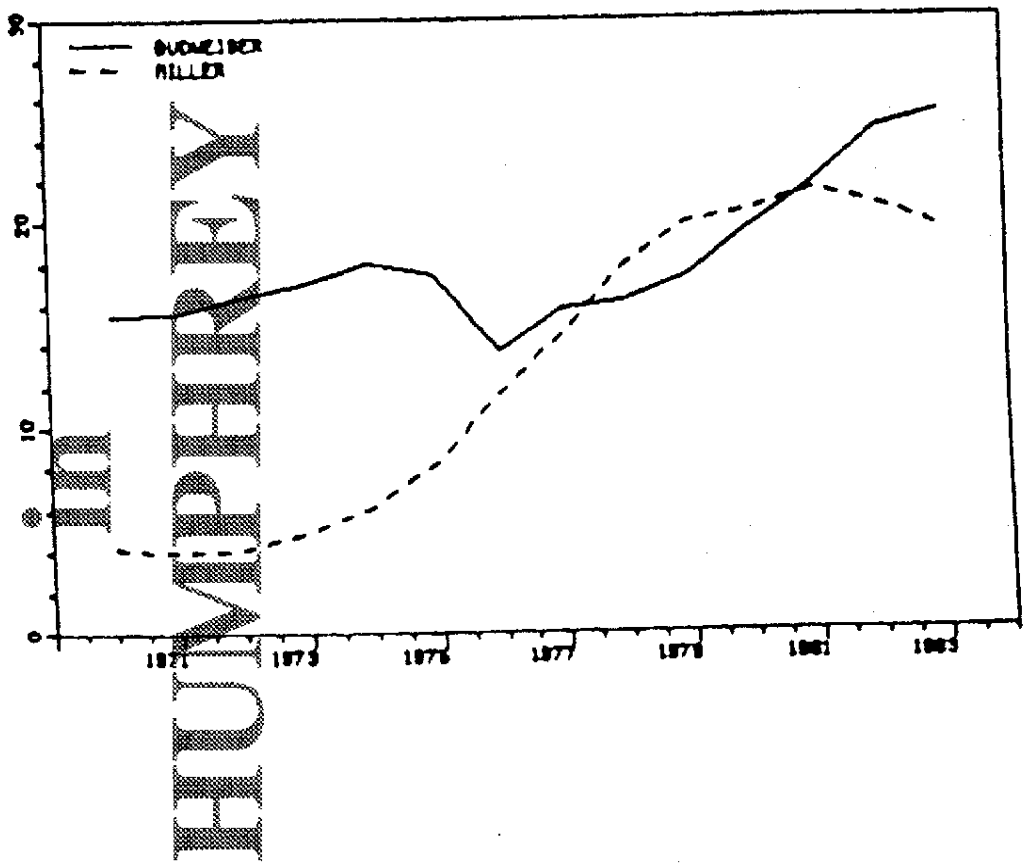
IT PAID OFF WITH YOUNGER ADULTS AND IT PAID OFF IN THE TOTAL MARKET.




IT CAN BE DONE.

JU DID IT.

BUD DID IT -- LEARNED TO DO IT.

WE CAN DO IT, TOO.

HOW CAN WE DO IT?

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# HOW WE CAN DO IT
## BASIC PRINCIPLES FROM HISTORY

IN THE YA OPPORTUNITY ANALYSIS, WE IDENTIFIED KEY THEMES IN THE SUCCESSION OF MAJOR FIRST USUAL BRANDS OF THE PAST. IN ESSENCE, THESE THEMES WERE:

1. BEING "IN TUNE" OR "OUT OF TUNE"

A SUCCESSFUL FIRST USUAL BRAND BEGINS TO DECLINE WHEN ANOTHER BRAND BECOMES BETTER "IN TUNE" THAN ITS PREDECESSOR WITH THE YAS WANTS OF THE TIMES, IN TERMS OF PRODUCT, POSITIONING, OR EXECUTION.

EXAMPLE: MARLBORO'S UNSMILING COWBOY WAS BETTER ATTUNED TO THE REBELLIOUS, FLOWER-CHILD 1960'S THAN LIGHTHEARTED "ALL AMERICAN" WINSTON.

2. GROWTH SECTORS

BECOMING MORE (OR LESS) "IN TUNE" HAS BEEN MORE A FUNCTION OF CHANGES IN YA WANTS THAN CHANGES IN BRANDS. THESE CHANGES IN WANTS HAVE OFTEN BEEN TRIGGERED OR PROPELLED BY CHANGES IN EXTERNAL FACTORS, WHICH:

- DIRECTLY AFFECTED SMOKER WANTS (E.G., THE RUSH TO FILTERS AFTER THE EARLY 1950'S AND WINSTON)

OR -

- INDIRECTLY CHANGE SMOKER WANTS BY CHANGING THE DEMOGRAPHIC MIX AMONG YA SMOKERS. EXAMPLE: AS MORE WOMEN SMOKED IN THE 1940'S, "FEMALE" WANTS BECAME MORE IMPORTANT AND PALL MALL ROSE ON "STYLISH LENGTH", ALTHOUGH IT NEVER CALLED ITSELF A "FEMALE" BRAND.

THE SUCCESSFUL BRANDS WERE THOSE THAT "CAUGHT THE RISING TREND" AT THE RIGHT TIME -- EARLY.

TO FOLLOW UP ON THIS LEARNING, WE CAN CLARIFY THESE TWO IDEAS AND MAKE THEM MORE CONCRETE AS FOLLOWS:

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1. IN TUNE = DIFFERENTIATION

- TO BE IDENTIFIABLE AS YA TO YA'S, A BRAND MUST EMBODY ELEMENTS ("WANTS") WHICH CLEARLY DIFFERENTIATE THE TARGET GROUP FROM ALL OTHER GROUPS.

THUS, TO TARGET YA SMOKERS 18-20 (FIRST USUAL BRAND SMOKERS), THE BRAND MUST TARGET WANTS WHICH ENDURINGLY DIFFERENTIATE YA SMOKERS 18-20 FROM ALL OTHER GROUPS:

- SMOKERS 21+
- NONSMOKERS 21+
- SMOKERS 21-24
- NONSMOKERS 21-24
- NONSMOKERS 18-20

- DIFFERENTIATION DOES NOT MEAN:

  - WANTS OF SMOKERS 18-20 WHICH ARE DETESTED BY OTHER GROUPS. THEY DON'T REALLY EXIST AND WOULD NOT ENGENDER LOYALTY ANYWAY.
  - TRANSIENT, FRIVOLOUS WANTS.
  - NECESSARILY "EXTREME" PROPOSITIONS.
  - THAT UNDIFFERENTIATING ELEMENTS -- UNIVERSAL WANTS -- CAN'T BE INCORPORATED TOO.

- DIFFERENTIATION DOES MEAN:

  - SOMETHING MORE SPECIFIC THAN JUST "APPEAL AMONG YOUNGER ADULT SMOKERS".
  - BETTER DISCRIMINATION IN SELECTING KEY WANTS AMONG MANY WANTS, ON A MEASURABLE BASIS.

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## 2. USING GROWTH SECTORS = "OPTIMUM LEVERAGEABILITY"

OBVIOUSLY, WE CAN LEVERAGE (OR TRY TO LEVERAGE) ALMOST ANYTHING.

THE KEY POINT, HOWEVER, IS HOW MUCH EFFORT IS REQUIRED FOR HOW MUCH PAYOFF.

INPUT ———> OUTPUT

THE IDEA OF OPTIMUM LEVERAGEABILITY IS TO MAXIMIZE THE CHANCE OF A PAYOFF AND THE SIZE OF THE PAYOFF.

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OPTIMUM LEVERAGEABILITY CAN BE ACHIEVED ONLY ON AN ELEMENT WHICH DIFFERENTIATES THE TARGET.

WE MUST FIND THE TARGET PRECISELY TO KNOW WHERE TO PLACE THE LEVER.

THIS

NOT THIS

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MAXIMUM RESULTS WILL BE OBTAINED FROM A PROPOSITION (LEVER) WHICH CAPITALIZES ON THE EXISTING BEGINNINGS OF MOMENTUM/GROWING WANTS...



...UR AT LEAST POTENTIAL MOMENTUM (WANTS WHICH ARE LIKELY TO GROW IN THE FUTURE)



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IT IS NOT DESIRABLE TO TARGET WANTS WHICH HAVE ALREADY GROWN TOO FAR OR TOO FAST FOR THE BRAND TO "CATCH" THE TREND RATHER THAN FOLLOW IT.

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IT IS ALSO UNDESIREABLE TO LEVERAGE WANTS WHICH ARE DECLINING.

THIS CAN BE NONPRODUCTIVE.

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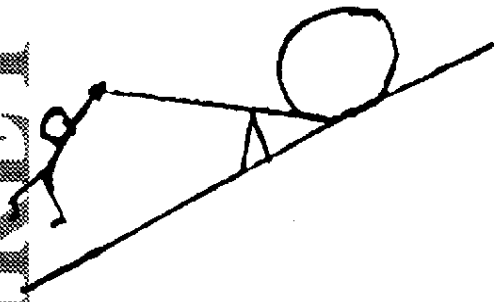
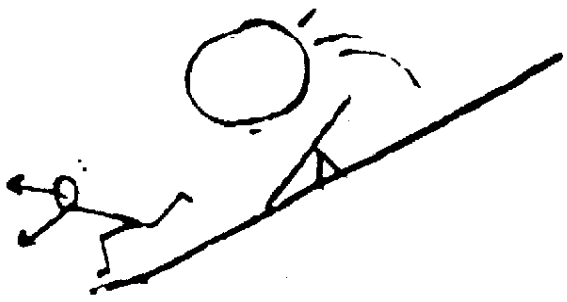


... OR EVEN COUNTERPRODUCTIVE,



FOR EXAMPLE, A BRAND COULD EARN FUBYAS RESENTMENT BY LEVERAGING AN "IN" TREND WHICH IS ALREADY "OUT" - PRESUMPTUOUS!

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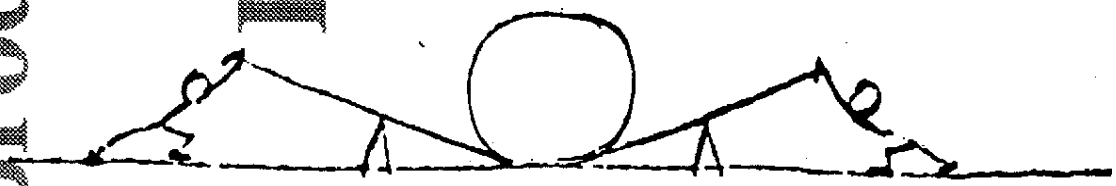
LEVERAGING WANTS WHICH ARE STABLE (DIFFERENTIATING BUT FLAT) REQUIRES EXTRA ENERGY (RESOURCES) BUT SEEMS POSSIBLE ...

IF NO OTHER BRAND HAS PREEMPTED THE POSITION.



NO MEANINGFUL DIFFERENCE = NO MOTION.

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THESE 3 "PRINCIPLES"

DIFFERENTIATION OF THE TARGET
OPTIMUM LEVERAGEABILITY
MEANINGFUL BRAND DIFFERENCE

ARE TOOLS TO GUIDE, NOT MAGIC FORMULAS.

TO PUT THEM TO USE,

IN HUMPHREY

WHAT IS LEVERAGEABLE

AMONG YA SMOKERS TODAY?

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1. LEVERAGE IN MARKETPLACE TRENDS

A. VIRILE/FF

- IN TERMS OF CIGARETTE CHOICE, YAS ARE BEST DIFFERENTIATED FROM OTHER SMOKERS BY THEIR AFFINITY FOR FULL FLAVOR AND VIRILE SMOKES.

| | FIRST HALF 1984 | |
|---|---|---|
| | 18-24 | 18+ |
| VIRILE | 50.4 | 37.5 |
| FULL FLAVOR | 50.4 | 43.0 |

SOURCE: TRACKER

- FULL FLAVOR OR "TASTE", AS A CENTRAL FEATURE FOR A BRAND, DOES NOT APPEAR LEVERAGEABLE AMONG WHITE YOUNGER ADULTS SINCE IT IS DECLINING. IT MAY, HOWEVER, STILL HAVE SOME MOMENTUM AMONG YA BLACK SMOKERS.

| | 18-24 TRACKER SHARE | | | | | |
|---|---|---|---|---|---|---|
| FF | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| TOTAL | 53.9 | 52.8 | 50.9 | 52.3 | 50.4 | -1.5 |
| BLACK | 68.2 | 67.5 | 71.5 | 76.9 | 76.3 | +5.1 |

THIS FITS WITH THE GENERAL PERFORMANCE OF NEWPORT VS. NEWPORT LIGHTS AND MARLBORO VS. MARLBORO LIGHTS.

- THE VIRILE CONCEPT STILL APPEARS LEVERAGEABLE, EXCEPT THAT ALL OF THE SEGMENT'S GROWTH COMES FROM MARLBORO.

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

B. FFLT

AMONG WHITE YAS, FFLT HAS BEEN GROWING, BUT MORE SLOWLY IN RECENT YEARS.

| | TRACKER SHARE 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| FFLT | 37.1 | 39.3 | 39.8 | 41.3 | 40.6 | 42.4 | +5.3 |

THIS FFLT TREND DOES NOT APPEAR TO DERIVE FROM CONSUMER INTEREST IN "LOW TAR" PER SE. DESPITE CONTINUING IMPLIED EMPHASIS BY THE FTC, 1/4 OF BOTH TOTAL AND YA SMOKERS HAVE MOVED FROM "AGREE" TO "DISAGREE" ON THIS POINT SINCE 1980.

"LOW TAR AND NICOTINE CIGARETTES REPRESENT A MAJOR STEP IN THE DIRECTION OF MAKING SMOKING LESS HARMFUL TO THE HEALTH" (FRANKELOVICH)

| SMOKERS AGREEING | 1980 | | 1984 | CHG. |
|---|---|---|---|---|
| 18-24 | 66 | <——— | 41 | -25 |
| 18+ | 77 | <——— | 43 | -34 |

AMONG YA SMOKERS, THIS IS CLEARLY CONFIRMED BY PERFORMANCE OF THE MODERATION AND CONCERNED SEGMENTS.

| | TRACKER SHARE 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| MODERATION | 9.6 | 9.7 | 9.4 | 9.2 | 8.2 | 7.4 | -2.2 |
| CONCERNED | 5.4 | 4.5 | 4.0 | 3.0 | 2.4 | 2.2 | -3.2 |

- FFLT IS BECOMING MAINSTREAM, BUT PROBABLY FOR THE POSITIVE ATTRIBUTE OF SMOOTHNESS.

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

C. COOLNESS/MENTHOL

IN TOTAL, COOLNESS/MENTHOL HAS DECLINED SEVERELY AS A FIRST USUAL BRAND CHOICE SINCE 1977.

| | NFO SHARE AGES 18-20 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | CHG. |
| COOLNESS | 32.9 | 33.5 | 33.1 | 30.9 | 29.7 | 26.0 | 24.1 | 20.7 | 18.7 | -14.2 |

- THIS DECLINE, HOWEVER, HAS occurred ONLY AMONG WHITE YAS.

| | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| COOLNESS | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| WHITE | 23.1 | 21.4 | 20.1 | 18.1 | 18.2 | -4.9 |
| BLACK | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | +1.1 |

AMONG WHITE YAS, THE MOVEMENT HAS NOT ONLY BEEN AWAY FROM COOLNESS, BUT MENTHOLS IN GENERAL.

| | TRACKER SHARE AGES 18-24 | | | | | |
|---|---|---|---|---|---|---|
| WHITE | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
| COOLNESS | 23.1 | 21.4 | 20.1 | 18.1 | 18.2 | -4.9 |
| MENTHOL | 31.5 | 31.5 | 30.6 | 27.7 | 27.7 | -3.8 |

AMONG WHITE YAS, THE COOLNESS/MENTHOL LOSSES ARE GOING TO MARLBORO. IN THE 1983 SDS, 94% OF ALL 18-20 NON-MENTHOL SMOKERS ARE NOW SMOKING MARLBORO, USED TO SMOKE MARLBORO, OR LIST MARLBORO AMONG THEIR 3 FAVORITE BRANDS. THE LONG-TERM TRENDS ON NFO ARE MIRROR IMAGES (DISREGARD LEVEL).

| | NFO SHARE AGES 18-20 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | CHG. |
| COOLNESS | 32.9 | 33.5 | 33.1 | 30.9 | 29.7 | 26.0 | 24.1 | 20.7 | 18.7 | -14.2 |
| MARLBORO | 34.3 | 33.6 | 32.6 | 34.8 | 36.4 | 38.4 | 43.2 | 46.7 | 50.9 | +16.6 |

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1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

- AMONG BLACK YAS, COOLNESS IS HOLDING ITS OWN, SINCE KOOL'S MASSIVE LOSSES ARE BEING OFFSET BY NEWPORT ...

TRACKER SHARE AGES 18-24

| BLACK | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
|---|---|---|---|---|---|---|
| KOOL | 34.6 | 30.8 | 27.9 | 21.8 | 17.2 | -17.4 |
| NEWPORT | 18.6 | 22.4 | 27.7 | 36.4 | 38.6 | +20.0 |
| SALEM | 17.2 | 19.2 | 17.3 | 13.6 | 15.9 | - 1.3 |
| COOLNESS | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | + 1.1 |

- AND MENTHOLS CAPTURE 90% OF THE MARKET, I.E., DIFFERENTIATE BLACK YAS FROM ALL OTHER SMOKERS.

TRACKER SHARE AGES 18-24

| BLACK | 1980 | 1981 | 1982 | 1983 | 1984:1 | CHG. |
|---|---|---|---|---|---|---|
| COOLNESS | 71.3 | 72.8 | 73.0 | 72.1 | 72.4 | +1.1 |
| MENTHOL | 88.6 | 89.7 | 91.5 | 88.9 | 93.8 | +5.2 |

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## 1. LEVERAGE IN MARKETPLACE TRENDS (CONT'D)

IN SUMMARY,

- THERE DOES NOT APPEAR TO BE POSITIVE LEVERAGE AMONG WHITE YA SMOKERS ON EITHER FF ("TASTE") OR FFLT ("LOW TAR").

- COOLNESS/MENTHOL/FF PROPOSITIONS STILL MAY RETAIN SOME POSITIVE LEVERAGEABILITY AMONG BLACK YA SMOKERS.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS

A. YA WOMEN SMOKERS SLOWLY GAINED IMPORTANCE OVER THE LAST DECADE, BUT HAVE HELD EQUAL WITH YAS MEN FOR NEARLY THREE YEARS.

| | % IMPORTANCE WITHIN 18-24 | | | | | | |
|---|---|---|---|---|---|---|---|
| | HEW | TRACKER | | | | | |
| | 1975 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984:1 |
| MALE | 54 | 52 | 52 | 51 | 50 | 50 | 50 |
| FEMALE | 46 | 48 | 48 | 49 | 50 | 50 | 50 |

IT IS NOT CLEAR WHETHER YA FEMALE SMOKERS WILL CONTINUE TO BE A GROWTH SECTOR, BUT IT IS UNLIKELY THAT THEY WILL BECOME LESS IMPORTANT THAN MALES.

THIS DOES NOT, HOWEVER, NECESSARILY IMPLY A DEMAND FOR "FEMALE" BRANDS.

HISTORICAL ANALYSIS SHOWS THE MOST SUCCESSFUL FIRST USUAL BRANDS HAVE BEEN DUAL-SEX.

- YANKELOVICH DATA FROM 1975-80, COVERING 18 TYPES OF PRODUCTS SHOWED THAT THERE WAS LESS INTEREST IN MALE/FEMALE BRANDS OF BEER, CARS, AND CIGARETTES ("THE CONSTANTS IN LIFE") THAN IN ANY OTHER OF THE PRODUCT TYPES.

"BELIEVE THERE SHOULD BE DIFFERENT PRODUCTS FOR MEN AND WOMEN"

| | AGREE % |
|---|---|
| BEER | 9 |
| CIGARETTES | 10 |
| CARS | 11 |
| 18 PRODUCT AVG. | 38 |

IT DOES IMPLY THAT FEMALES AND THEIR KEY WANTS MUST BE GIVEN EQUAL ATTENTION IN YAS MARKETING.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

### B. HS vs. College

- THE GREATEST DIFFERENTIATION OF SMOKING AMONG YOUNGER ADULTS APPEARS TO BE THE COLLEGE/NON-COLLEGE SPLIT. RJR DATA IS NOT AVAILABLE, BUT TWO OUTSIDE SOURCES AGREE THAT IN 1983 THREE-FOURTHS OF SMOKERS 18-24 WERE EDUCATED THROUGH HIGH SCHOOL OR LESS.

| SMOKERS 18-24 | 1983 SIMMONS | 1982-84 YANKELOVICH |
|---|---|---|
| HS OR LESS | 78% | 73% |
| PAST HS | 22 | 27 |

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

### B. HS vs. COLLEGE (CONT'D)

- SEVERAL SOURCES SUGGEST THAT THIS GAP HAS BEEN WIDENING STEADILY.

- YANKELOVICH SHOWS THAT NON-COLLEGE YA SMOKER IMPORTANCE HAS BEEN GROWING BY ABOUT A POINT A YEAR....

| SMOKERS 18-24 | 1980 (79-81) | 1981 (80-82) | 1982 (81-83) | 1983 (82-84) | CHG. |
|---|---|---|---|---|---|
| HS OR LESS | 70% | 72% | 73% | 73% | +3 |
| PAST HS | 30 | 28 | 27 | 27 | -3 |
| IN COLLEGE | 14 | 13 | 13 | 12 | -2 |

- WHICH IMPLIES THAT INCIDENCE IS NEARLY TWICE AS HIGH AMONG THE NON-COLLEGE AND ALSO A GROWING GAP.

SMOKING DEVELOPMENT (YANKELOVICH)

| | 1983 (82-84) | |
|---|---|---|
| 18-24 TOTAL | 100 | |
| HS OR LESS | 125 | 1.9:1 |
| PAST HS | 67 | |
| IN COLLEGE | 58 | |

ON NFO, IT APPEARS THAT THE GAP IS SIMILAR AT AGES 18-20 AND HAS BEEN HOLDING OR SLOWLY EVOLVING FOR A DECADE.

| | INCIDENCE INDEX 1975 | 1983 |
|---|---|---|
| 18-20 TOTAL | 100 | 100 |
| HS | 131 | 145 |
| COLLEGE | 63 | 57 |

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2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

B. HS VS. COLLEGE (CONT'D)

- IN TERMS OF IMAGERY,

  YANKELOVICH DATA INDICATE THAT COLLEGE IS NOT A KEY ASPIRATION OF THE HS-EDUCATED SMOKER ANY MORE THAN THE NON-COLLEGE ROUTE APPEALS TO SMOKERS WHO GO TO COLLEGE.

  22-16A. "THE WAY FOR YOUNG PEOPLE TO GET AHEAD IN LIFE IS TO...."

| SMOKERS | GO TO COLLEGE | LEARN A SKILL |
|---|---|---|
| 18-20 TOTAL | 44% | 55% |
| 18-24 TOTAL | 42 | 57 |
| HS OR LESS* | 31 | 69 |
| PAST HS | 68 | 31 |
| IN COLLEGE | 65 | 31 |

*MAY INCLUDE HS STUDENTS WHO PLAN TO ATTEND COLLEGE.

SOURCE: YANKELOVICH MONITOR, 1980-83 COMBINED.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

THESE QUANTIFIABLE RESULTS SUGGEST THAT CURRENTLY, THERE ARE THREE KEY SECTORS WHICH MAY BE LEVERAGEABLE AMONG YOUNGER ADULT SMOKERS OF THE MID-1980's:

1. YA FEMALE SMOKERS, WHO ARE LIKELY TO EQUAL OR EXCEED MALES IN IMPORTANCE...
   - "WANTS" WHICH ARE KEY TO FEMALE SMOKERS, BUT MAY ALSO BE HELD BY MALES, SHOULD BE MORE LEVERAGEABLE THAN LARGELY MALE WANTS.
   - NOT NECESSARILY "FEMALE BRANDS"
2. YA BLACK SMOKERS AFFORD POSSIBLE LEVERAGEABILITY OF PRODUCT BASED COOLNESS/MENTHOL/FF BENEFITS AS WELL AS IMAGERY ELEMENTS.
3. THE NON-COLLEGE SMOKER IS THREE-FOURTHS OF THE TOTAL YA SMOKER TARGET, A TREND WHICH APPEARS TO STILL BE EVOLVING. THIS SUGGESTS THAT WANTS, EXECUTIONS, CUES AND SYMBOLS WHICH SUIT THE NON-COLLEGE IDENTITY MAY BE MORE LEVERAGEABLE AMONG YAS THAN THE COLLEGE-ORIENTED OPTIONS.

LESS QUANTIFIABLE BUT PERHAPS MORE MEANINGFUL IS THE CONTENT OF YOUNGER ADULT SMOKER LIFESTYLES, ATTITUDES, AND VALUES -- THEIR MINDSET TODAY.

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## 2. LEVERAGE IN DEMOGRAPHIC SHIFTS (CONT'D)

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# DIFFERENTIATING YAS TODAY FROM YESTERDAY

## How FUBYAS See "Their Generation" vs. The "Older Generation"

- We are much more open about EVERYTHING
- We have so much FREEDOM
  - -- We don't need to rebel
  - -- Grow up faster -- more options ("privileges")
  - -- Liberal attitudes about sex
  - -- Don't get married, have babies as young ("responsibilities")
  - -- Into drugs and drink too much
- But with freedom, comes STRESS
  - -- Responsible for choices
  - -- Make mistakes earlier
- Our generation is going to hustle for the material things -- expensive toys -- not save the world
- Byword of the generation = goals. We don't respect peers w/o goals -- but almost any goals will do
- The "Older Generation" is in a rut.

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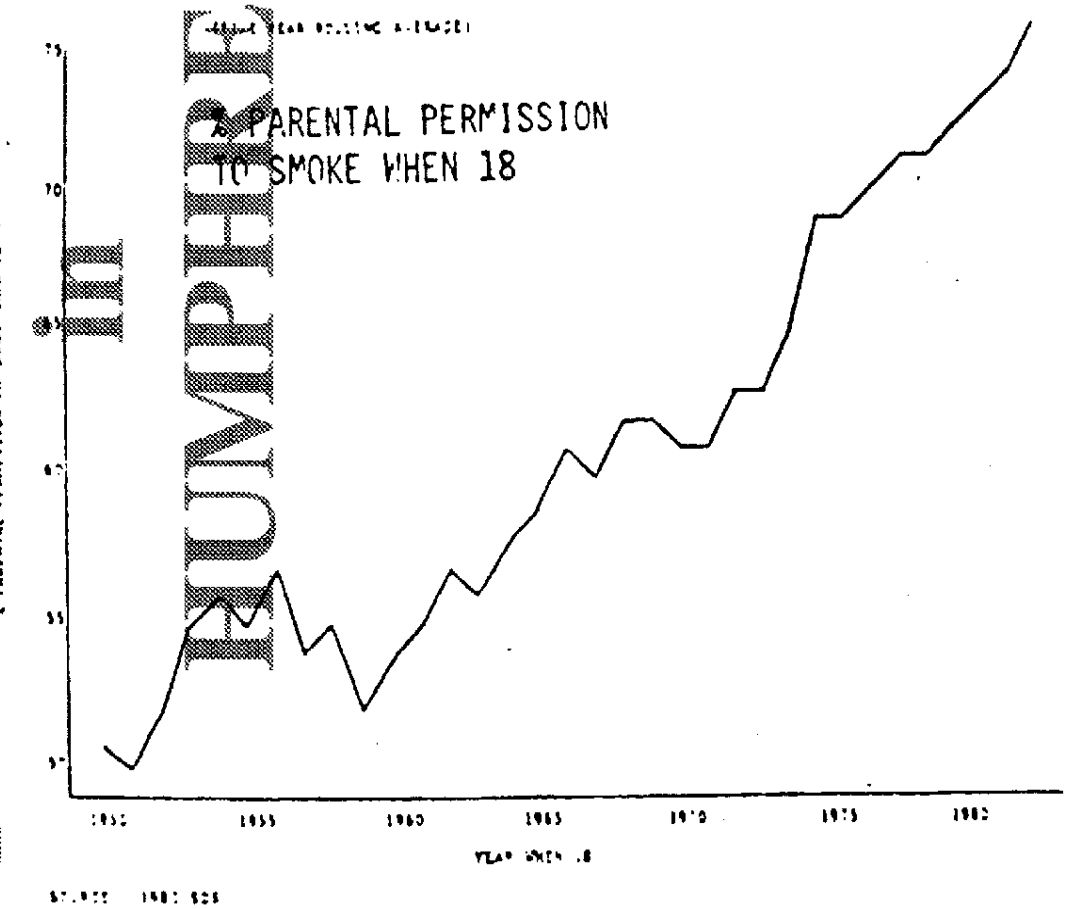
"FUBYAS GENERATION" vs. "OLDER GENERATION"

MARKETING RELEVANCE

- NO REBELLION--SO MUCH FREEDOM
  -- SMOKING NOT REBELLION




- NO REBELLION--NO GENERATION GAP
  -- PARENTS' BRANDS OK

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# DIFFERENTIATING WITHIN YAS TODAY: FUBYAS VS. SWITCHERS

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THROUGHOUT THIS NEXT SECTION, WE WILL BE TALKING ABOUT:

18-20 YEAR OLD SMOKERS = FUBYAS

21-24 YEAR OLD SMOKERS = SWITCHERS

NOT ONLY HAVE 21 YEAR OLDS ALREADY CHOSEN THEIR FUB, BUT THEIR SWITCHING BEHAVIOR IS MARKEDLY DIFFERENT.

NFO NET SWITCHING: 1976-83

| | 18-20 | 21-24 |
|---|---|---|
| TOTAL RJR | -5.98 | +1.39 |
| TOTAL P. MORRIS | +7.82 | -1.67 |
| GAP | -13.80 | +3.06 |

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# DIFFERENCES WITHIN YAS ON KEY NEEDS

- ITS MEANING AND NATURE TO FUBYAS
- THE DIFFERENCE FUBYAS VS. SWITCHERS
- RELEVANCE TO MARKETING
- FIVE KEY NEEDS
  - BELONGING
  - BEING DIFFERENT
  - UPWARD STRIVING
  - EXCITEMENT
  - SEX
- ALL HIGHLY INTERRELATED

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1. BELONGING

- BELONGING IS ENORMOUSLY IMPORTANT TO FUBYAS
- AND THIS NEED DIFFERENTIATES THEM FROM SMOKERS IN OLDER AGE GROUPS

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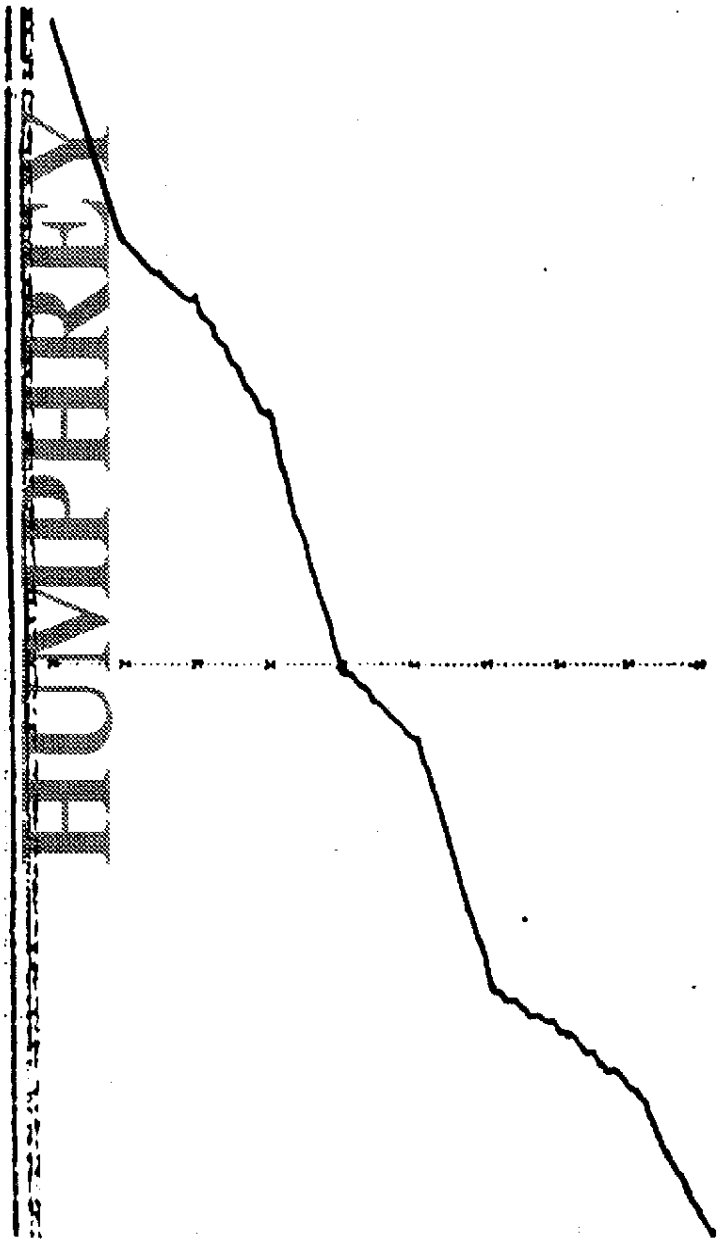
## 2. BEING DIFFERENT

- BUT THEY ALSO . . .




- BELONG/FIT IN AND BE DIFFERENT A SOURCE OF CONFUSION TO NON-FUB MINDS -- UNTIL WE LOOK THROUGH THEIR EYES RATHER THAN OURS.

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## 1. & 2. Belonging and Being Different

- The NATURE of these needs for FUBYAS

  -- Belonging to the FAMILY (secure) replaced by belonging to selected PEER GROUP (not as secure)

  -- Belonging to selected peer group requires BEING DIFFERENT from:

  - Family
  - Other peer groups

- For FUBYAS, the 2 are inseparable

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1. & 2. BELONGING AND BEING DIFFERENT

- SOURCES FOR SATISFYING THESE NEEDS:

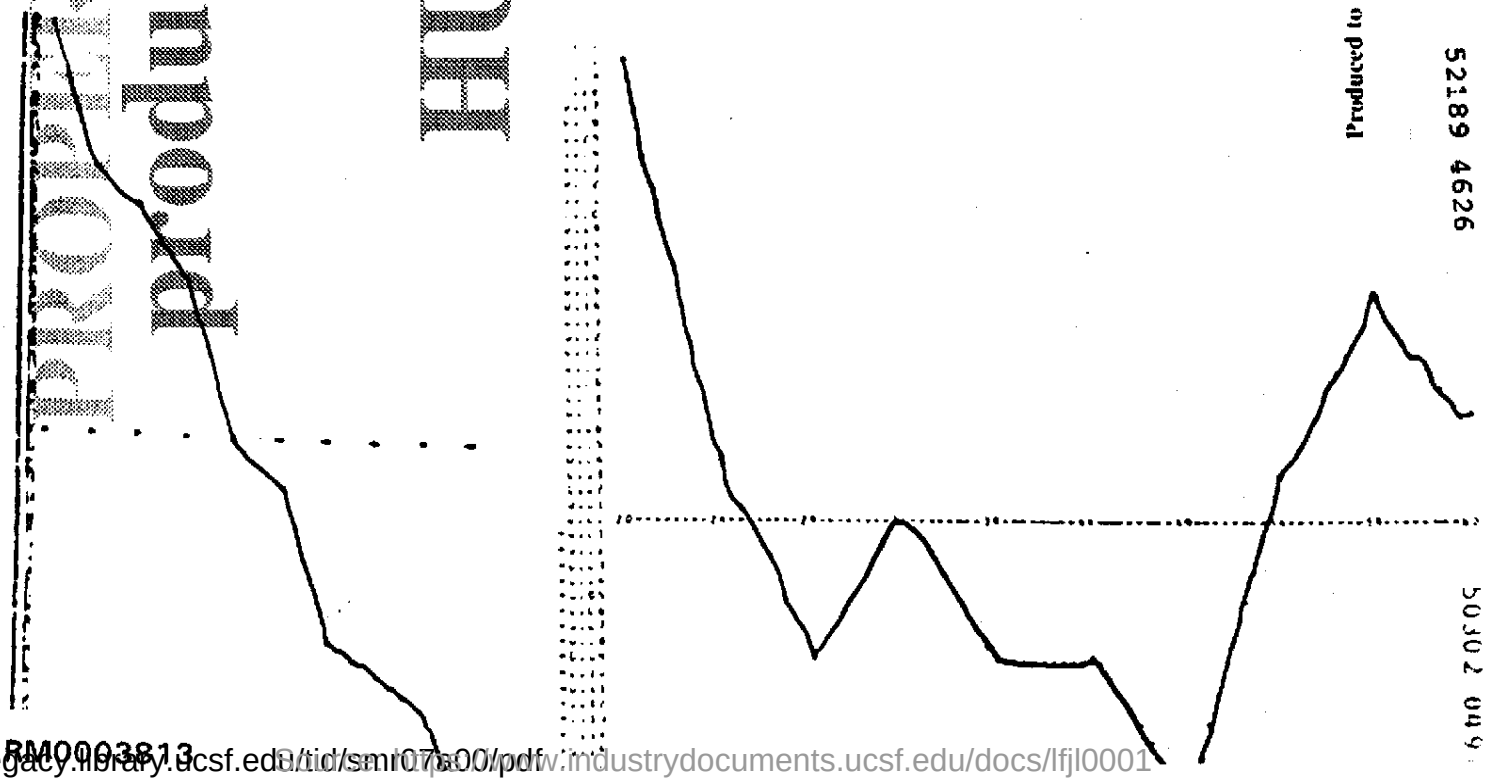
-- A FEW CLOSE FRIENDS ——→ BELONGING

- INTIMATE RELATIONSHIP, CHERISHED

-- PEER GROUP IDENTITY ——→ BELONGING + BEING DIFFERENT

- DIFFERENT VIA THE GROUP, NOT INDIVIDUALLY

THEY ENJOY BEING DIFFERENT BUT WAIT TO SEE WHAT OTHERS THINK



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1. & 2. BELONGING AND BEING DIFFERENT (CONT.)

| FUBYAS | VS. | SWITCHERS |
|---|---|---|
| BELONGING: | | BELONGING: |
| -- PEER GROUP IDENTITY | | |
| -- A FEW CLOSE FRIENDS | | -- A FEW CLOSE FRIENDS |
| | | -- OPPOSITE SEX |
| | | -- THE BROADER SOCIETY |
| BEING DIFFERENT: | | BEING DIFFERENT |
| -- BEING DIFFERENT VIA THE GROUP | | -- BEING DIFFERENT AS AN INDIVIDUAL DEVELOPING SELF-IDENTITY (TRANSITION) |
| -- WHO ARE WE | | -- WHO AM I |

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1. & 2. BELONGING AND BEING DIFFERENT (CONT.)

- MARKETING RELEVANCE
  - -- FUBYAS' PEER GROUP IDENTITY WITH IDENTIFIABLE SOCIAL GROUPS PROVIDES
    - SPECTRUM -- MINDSETS
    - SPECTRUM -- CUES & SYMBOLS
    - WILL DISCUSS LATER IN DETAIL

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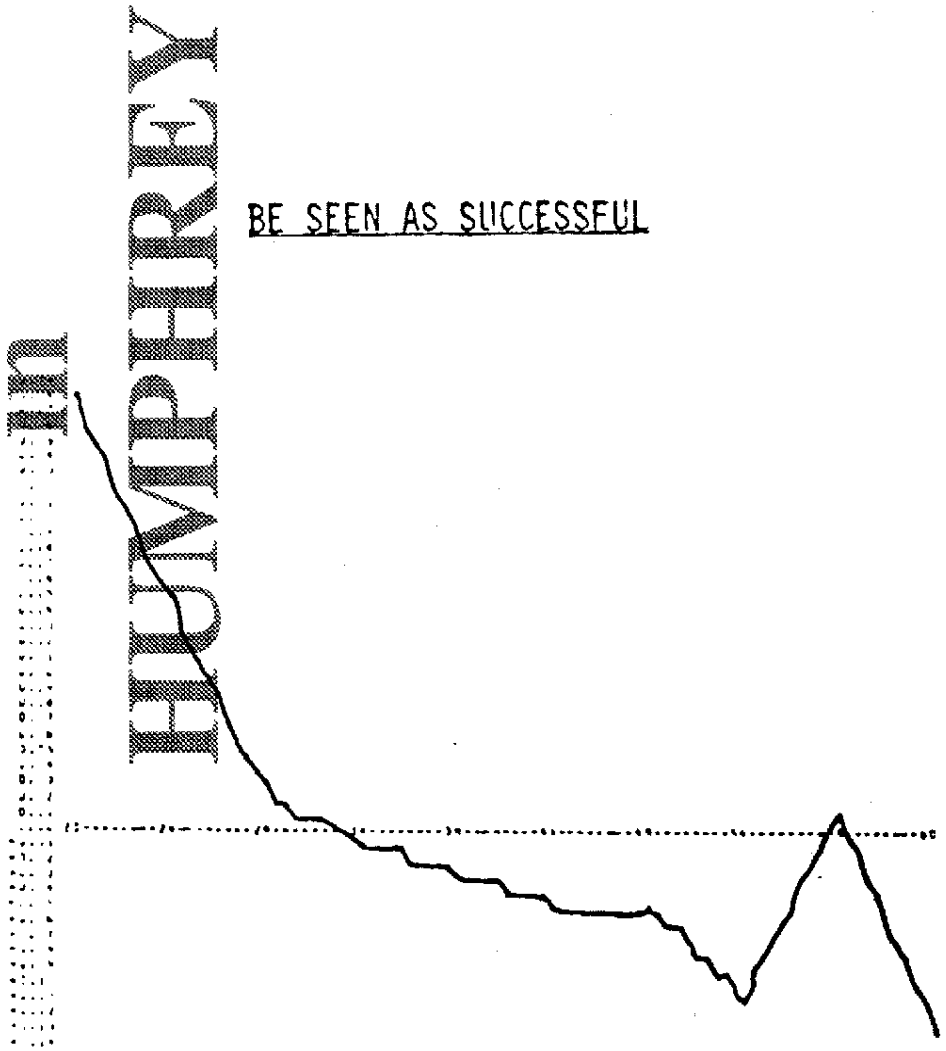
B. KEY NEEDS

3. UPWARD STRIVING DIFFERENTIATES FUBYAS

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3. UPWARD STRIVING

- WHAT DO FUBYAS MEAN WHEN THEY TALK ABOUT THIS NEED

| FUBYAS | VS. | SWITCHERS |
|---|---|---|
| SUCCESS RELATES TO TODAY | | SUCCESS RELATES TO TOMORROW |
| • REALITY-BASED AND FANTASY-BASED SUCCESS | | • ASPIRATIONAL SUCCESS |
| -- REALITY-BASED--TODAY/ ACHIEVABLE | | -- "MAKING IT" |
| - A DATE | | -- JOB, CAREER SUCCESS |
| - A GOOD PARTY | | -- GOOD, GREAT INCOME |
| - A "COUP" IN FRONT OF THE GANG | | -- DEVELOPING POTENTIAL |
| -- FANTASY-BASED--TODAY/ UNACHIEVABLE | | -- MEETING GOALS |
| - THE MOST POPULAR | | -- NICE HOME |
| - THE MOST ADMIRED | | -- MANY "THINGS" |
| - "RIDING THE BIG WAVE" | | |

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## 3. UPWARD STRIVING

- MARKETING RELEVANCE

-- UPWARD STRIVING MOTIVES AND THEREFORE CUES AND SYMBOLS RELATED TO TOMORROW ARE NOT RELEVANT TO FUBYAS

-- YANKELOVICH DATA SUGGESTS TWO FORMS OF FANTASY MAY BE BOTH DIFFERENTIATING AND LEVERAGABLE:

- ESCAPE INTO IMAGINATION
- THE GOOD OLD DAYS

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3. UPWARD STRIVING (CONT.)

- ESCAPE INTO IMAGINATION (RESPONSIVENESS TO FANTASY)

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-- THE INCLINATION TO DEAL WITH LIFE BY ESCAPING INTO IMAGINATION DIFFERENTIATES FUBYAS BOTH FROM OLDER SMOKERS AND FROM NON-SMOKING PEERS.

18-20 SMOKERS NET AGREEMENT:

| | VERSUS 18+ SMOKERS % | VERSUS 18-20 NON-SMOKERS % |
|---|---|---|
| ESCAPE INTO IMAGINATION | +40 | +18 |

-- AND, IT APPEARS TO BE PARTICULARLY LEVERAGEABLE BECAUSE IT IS GROWING.

| | 18-20 SMOKERS 1979-1981 % | | 1981-1983 % |
|---|---|---|---|
| ESCAPE INTO IMAGINATION | 18 | ——→ | 34 |

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SOURCE: YANKELOVICH



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3. UPWARD STRIVING (CONT.)

- THE GOOD OLD DAYS (NEW ROMANTICISM)

-- THE DEGREE TO WHICH FUBYAS FIND ROMANCE IN THE FANTASY OF "THE GOOD OLD DAYS" HIGHLY DIFFERENTIATES THEM FROM OLDER SMOKERS.

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18-20 SMOKER NET AGREE VS. 18+ SMOKERS
%

"GOOD OLD DAYS" +29

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4. EXCITEMENT

- THE GRAPH SAYS YOUNGER ADULT SMOKERS ARE RIGHT WHEN THEY DESCRIBE THE REST OF US AS BEING IN A RUT.




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4. EXCITEMENT (CONT.)

| FUBYAS | VS. | SWITCHERS |
|---|---|---|
| - HAVE FUN IN EVERY WAY POSSIBLE AT EVERY TIME POSSIBLE | | - HAVE FUN SELECTIVELY |
| • AVOID BOREDOM, RUT, ROUTINE | | • SELECT ACTIVITIES OF INTEREST |
| • BE SPONTANEOUS | | • DEVELOP EXPERTISE |
| • NO FUN = PARENTS | | • PURSUE IN ALLOCATED LEISURE TIME |
| • FUBYAS FUN IS • FUBYAS SUCCESS -- ENJOY TODAY/THE MOMENT TO THE LIMIT | | • SWITCHERS FUN IS A SIGN OF SWITCHER SUCCESS -- SHOWS YOU'RE "MAKING IT" |

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4. EXCITEMENT (CONT.)

MARKETING RELEVANCE

-- FOR TODAY'S FUBYAS, EXCITEMENT IS NOT SIMPLY "A GOOD TIME."

-- IT IS LIVING ON THE EDGE/THE LIMIT...OR, AT LEAST, IMAGINING SO.

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4. EXCITEMENT = "THE EDGE"

"THE EDGE" DIFFERENTIATES THIS GROUP...

-- THEY LIKE TO BE SEEN AS RISK TAKERS...

LIKES TO TAKE RISKS



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4. EXCITEMENT = "THE EDGE"

-- AS ONE WHO STANDS OUT IN A CROWD...




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4. EXCITEMENT = "THE EDGE"

-- AGGRESSIVE...




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4. EXCITEMENT = "THE EDGE"

-- AS ACHIEVEMENT ORIENTED (IN THEIR OWN WAY)...



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4. EXCITEMENT = "THE EDGE"

-- AS RUGGED...




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4. EXCITEMENT = "THE EDGE"

-- AND, ADVENTUROUS.

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## 4. EXCITEMENT -- "THE EDGE"

- THE DESIRE TO LIVE ON "THE EDGE" NOT ONLY DIFFERENTIATES FUBYAS FROM OLDER SMOKERS, IT ALSO APPEARS TO BE A PARTICULARLY LEVERAGABLE IDEA, I.E., IT IS GROWING.

| "THE EDGE" | FUB VS. SWITCHER DIFFERENCE | | FUBYAS GROWTH 1982-83 | |
|---|---|---|---|---|
| | PTS. | RANK | PTS. | RANK |
| LIKES TO TAKE RISKS | + .61 | 1 | + .61 | 1 |
| ACHIEVEMENT ORIENTED | + .36 | 3 | + .47 | 3 |
| ADVENTUROUS | + .29 | 8 | + .42 | 4 |
| STAND OUT IN A CROWD | + .31 | 4 | + .38 | 5 |
| GENUINE | + .35 | 6 | + .35 | 6 |
| RUGGED | + .27 | 12 | + .34 | 7 |
| DYNAMIC | + .27 | 11 | + .32 | 8 |
| AGGRESSIVE | + .30 | 5 | + .26 | 9 |

- "THE EDGE" IS NOT LIMITED TO MACHO/PHYSICAL DANGER CONTEXT -- "THE EDGE" IS AN IMAGE, AN IDEA, AND CAN APPLY TO CLOTHES, SEX, DRUGS, LANGUAGE, CARS, ANY WAY YOU CAN "TAKE IT TO THE LIMIT."

SOURCE: SDS

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5. SEX

LAST -- BUT SURELY NOT LEAST.

| FUBYAS | VS | SWITCHERS |
|---|---|---|
| • LOTS OF DATES | | • CLOSER RELATIONSHIPS |
| -- LINKS TO SUCCESS NEED | | |
| • ANYTHING GOES | | • WE'RE PARTNERS |
| -- LINKS TO EXCITEMENT NEED | | -- 50/50 |

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5. SEX (CONT.)

- MARKETING RELEVANCE

-- LIBERAL ATTITUDES TOWARD SEX CLEARLY DIFFERENTIATE FUBYAS FROM THEIR NON-SMOKING PEERS...THEY ARE TWICE AS IN TUNE WITH THIS VIEWPOINT.

NET AGREEMENT/DISAGREEMENT

| | SMOKERS | NON-SMOKERS |
|---|---|---|
| | % | % |
| LIBERAL SEX ATTITUDES | | |
| 18-20 | 29 | 15 |
| 18+ | 17 | -2 |

SOURCE: 1981-1983 YANKELOVICH

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5. SEX (CONT.)

- A MARKETER CAN SELECT AMONG 3 ALTERNATIVES TO APPLY THIS LEARNING:

  -- AS THE TOTAL MARKETING EFFORT.

  -- USE SELECTED ELEMENTS OF THE MARKETING MIX TO TARGET THE SEX THEME TO FUBYAS ONLY.

  -- USE THE LEARNING DEFENSIVELY, I.E., EXECUTE RELEVANT MARKETING EFFORTS THAT DON'T APPEAR OUT-OF-SYNC WITH FUBYAS VIEWPOINT.

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5. SEX

- ENTIRE MARKETING EFFORT

FOR EXAMPLE:

JOVAN MUSK OIL

| FEMALES | SHARE | BDI |
|---|---|---|
| 18-24 | 4.6 | 149 |
| 25-34 | 3.7 | 120 |
| 35+ | 2.4 | 78 |
| 18+ | 3.0 | 100 |

QUOTING FROM BUSINESS WEEK 10/22/79:

JOVAN...IS THE FIRST COMPANY TO BREAK INTO THE U.S. FRAGRANCE MARKET SUCCESSFULLY IN 15 YEARS. INDEED, JOVAN'S NOVEL MERCHANDISING TECHNIQUES HAVE TURNED THE INDUSTRY ON ITS EAR.

WHILE OTHER COMPANIES MAY ONLY ALLUDE TO A USER'S SEX APPEAL, JOVAN SPELLS IT OUT WITH COPY ON BOTTLES, PACKAGES, AND ADVERTISING DESCRIBING MUSK OIL AS:

- "PASSION-AROUSING"
- "EROGENOUS"
- "ANIMAL-LIKE"
- "APHRODISIAC"

AND JUST A PLAIN "TURN-ON."

"THIS MESSAGE APPEALS TO THE UNDER 25 CROWD," SAYS AN INDUSTRY ANALYST.

SOURCE: 1983 SMRB

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5. SEX (CONT.)

- USE SELECTED ELEMENTS TARGETED TO FUBYAS ONLY

FOR EXAMPLE:

-- T-SHIRTS ARE SO POPULAR BECAUSE THEY ARE FUN, SELF-EXPRESSIVE/BADGES.

-- MUCH OF THE CLASSIFIED AD SECTION OF ROLLING STONE IS DEVOTED TO T-SHIRTS WITH "SAYINGS." A FEW TAME ONES

- THIS TIME IT'S LOVE. NEXT TIME IT'S $20.
- HOW CAN I LOVE YOU WHEN YOU WON'T LIE DOWN.
- I THINK I COULD FALL MADLY IN BED WITH YOU.

TO TIE A LINE TO A BRAND WOULD, OF COURSE, TAKE A RELEVANT LINK.

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5. SEX (CONT.)

- USE THE LEARNING DEFENSIVELY

-- KEEP IN MIND THAT SQUEAKY CLEAN LOOKS GOOD TO US -- BUT IS OUT-OF-SYNC WITH THE FUBYAS VIEWPOINT.

IT IS LIKELY TO BE SEEN BY THEM AS NOT SPEAKING TO THEM, NOT UNDERSTANDING, NOT RELEVANT TO THEIR LIFESTYLE.

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## BROAD GUIDELINES FOR UNDERSTANDING/ADDRESSING FUBYAS NEEDS

- ALL OF THESE KEY NEEDS ARE ENORMOUSLY INTERTWINED.

  -- YOU HAVE SEEN THE INSEPARABLE RELATIONSHIP BETWEEN THE NEED TO BELONG AND TO BE DIFFERENT

  -- AND HOW THE NEEDS FOR SUCCESS, EXCITEMENT AND SEX RELATE TO EACH OTHER.

  -- IN THE NEXT SECTION, YOU WILL SEE HOW THESE LAST THREE ARE TIED TO BELONGING AND BEING DIFFERENT.

- A FEW CONCISE IDEAS CAN BE CAPTURED FROM THESE NEEDS AND THEIR INTERRELATIONSHIPS TO SERVE AS READY-REFERENCE GUIDELINES:

FOR THE FUBYAS, WHAT IS CRITICAL IS:

1. TODAY, NOT TOMORROW
2. STAYING YOUNG/NOT IN THE RUT
3. ON THE EDGE, NOT THE MIDDLE GROUND

SEE THINGS THROUGH THEIR EYES, NOT OURS.

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## DIFFERENTIATING WITHIN THE FUBYAS GROUP

- FUBYAS ARE NOT ONE HOMOGENEOUS GROUP
- THIS IS GOOD NEWS, BECAUSE THEREIN LIES DIFFERENTIATION AND OPPORTUNITY
- THE SEGMENTS THAT FUBYAS KNOW ARE THEIR SOCIAL GROUPS. THESE ARE LARGE, LOOSELY KNIT BUT HIGHLY LABELED SUB-SOCIETIES FROM WHICH FUBYAS DRAW THEIR IDENTITY, I.E., BY BELONGING TO THE GROUP AND USING THE GROUP TO BE DIFFERENT FROM OTHER YOUNGER ADULTS.

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## DIFFERENTIATING WITHIN THE FUBYAS GROUP

- WHY AND HOW ARE THESE SOCIAL GROUPS POTENTIALLY USEFUL TO MARKETING?

  -- THESE GROUPS FORM A SPECTRUM

  - SPECTRUM REFLECTS ATTITUDINAL STANCES OR MINDSETS TOWARD DEALING WITH LIFE/WITH NEEDS
  - FROM VERY CONSERVATIVE TO OUTRAGEOUSLY EXTREME
  - IN ADDITION TO PROVIDING A SPECTRUM OF MINDSETS RELATED TO NEEDS, WE FIND THAT THE RESULTANT LIFESTYLE CUES AND SYMBOLS ARE ALSO DISTRIBUTED ACROSS THE SOCIAL GROUPS SPECTRUM

    - ACTIVITIES
    - MUSIC
    - DRESS
    - PRODUCT/BRAND SELECTION

- IN NET, THE SOCIAL GROUPS SEEM TO DIFFERENTIATE BETTER THAN DO DEMOGRAPHICS:

  -- FUBYAS MINDSETS TOWARD DEALING WITH LIFE/WITH NEEDS

  -- THE NATURE OF THEIR NEEDS

  -- THE RESULTANT LIFESTYLE CUES AND SYMBOLS

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- CAUTION

-- THE INDIVIDUAL FUBYAS IS NOT A PERFECT STEREOTYPE. HE/SHE DOES NOT EXIST PURELY AS A MEMBER OF ONE, AND ONLY ONE, SOCIAL GROUP -- ANY MORE THAN A WINSTON SMOKER FITS THE VIRILE LABEL PERFECTLY ON ALL DIMENSIONS.

-- NONETHELESS, THE FUBYAS:

- READILY CLASSIFIES OTHERS INTO THE GROUPS
- KNOWS WHAT HIS "MEMBERSHIP" IS
- PROVIDES ATTITUDINAL AND BEHAVIORAL SELF- DESCRIPTIONS WHICH SUPPORT SOCIAL GROUP CLASSIFICATION.

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# FUBYAS SOCIAL GROUPS SPECTRUM

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TODAY'S SOCIAL GROUPS

(BELONGING & BEING DIFFERENT)

in

HUMPHREY

EXTREME CONFORMITY

- GOODY GOODIES
- PREPS
- GQs
- DISCOS
- ROCKERS
- PARTY PARTIES
- PUNKERS
- BURNOUTS

EXTREME NONCONFORMITY

- THE LENGTH OF THE SPECTRUM IS NOT CONSTANT OVER TIME--EXPANDS AND CONTRACTS
  - IN 1940s, LESS RANGE
  - IN 1960s, MORE RANGE
- WHATEVER THE LABEL--THERE IS ALWAYS A GROUP VIEWED AS VERY NONCONFORMING FOR ITS GENERATION.
- THE LABELS CHANGE OVER TIME--BUT SLOWLY
  - AND THERE ARE MORE LABELS TODAY THAN SHOWN--BUT THEY REFLECT SUBTLE DIFFERENCES
- THE LIFESTYLE CUES AND SYMBOLS (WHICH YOU WILL SEE SOON) CHANGE OVER TIME
  - AND CAN CHANGE RAPIDLY

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THE OBJECTIVE IS TO:

IDENTIFY THE ENDURING MINDSETS BEHIND THE SOCIAL GROUPS.

USE THE GROUP LABELS NOT AS TARGETS, BUT AS GUIDELINES TO HELP EXECUTE RIGHT FOR TODAY.

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# EUBYAS SOCIAL GROUPS SPECTRUM

| EXTREME CONFORMITY | TODAY'S SOCIAL GROUPS (BELONGING & BEING DIFFERENT) | UPWARD STRIVING | EXCITEMENT | SEX |
|---|---|---|---|---|
| ↑ | • GOODY GOODIES | "SUCCESS" IS ESTABLISHMENT APPROVAL | DON'T GO NEAR "THE EDGE" | AVOID SEX |
| | • PREPS<br>• GQ's<br>• DISCO's | | APPRECIATE EDGE, BUT RARELY PARTICIPATE | LIBERAL |
| - 0 - | | | | |
| | • ROCKERS<br>• PARTY PARTIES | | LIVE AT EDGE NOW AND THEN | MORE LIBERAL |
| ↓ | • PUNKERS | "SUCCESS" IS ESTABLISHMENT OUTRAGE | THE VERY EDGE | MOST LIBERAL |
| EXTREME NCONFORMITY | • BURNOUTS | | | |

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# FUBYAS SOCIAL GROUP SPECTRUM

- WITH REGARD TO "SOCIAL GROUP" PARTICIPATION, FUBYAS TEND TO LIVE IN A MOVIE

  -- THEY KNOW THE ROLES

  -- THEY KNOW THE SCRIPT

  -- THEY KNOW THE COSTUMES

  -- THEY KNOW THE PROPS

- WE WANT TO SUPPLY ONE OF THE PROPS -- THEIR BRAND OF CIGARETTES

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# FUBYAS SOCIAL GROUPS SPECTRUM

EXTREME CONFORMITY

- 0 -

EXTREME NONCONFORMITY

| TODAY'S SOCIAL GROUPS | MUSIC | CLOTHES | CARS | DRINKS | OVER |
|---|---|---|---|---|---|
| • GOODY GOODIES | | | | | |
| • PREPS<br>• GQ's<br>• DISCO's | MUSIC AS BACKGROUND<br>(TOP 40) | THE FASHION LOOK<br>- IZOD<br>- "NICE" | MERCEDES<br>VOLVO<br>CAMARO | MIXED DRINKS<br>LIGHT BEER<br>HEINEKEN | |
| • ROCKERS<br>• PARTY PARTIES | MUSIC AS A LIFE STATEMENT<br>- IMMERSION<br>- CONCERTS<br>- PERFORMERS SELECTED FOR THEIR IMAGE | ANTI-FASHION TO OUTRAGEOUS<br>- OLD BLACK T-SHIRT | USED CAR<br>- FIXED UP<br>- SOUPED UP<br>VAN<br>PICK UP | JACK DANIELS<br>BUDWEISER | |
| • PUNKERS<br>• BURNOUTS | | - SPIKES ON CLOTHES & HAIR | JUST WHEELS | | |

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# FUBYAS SOCIAL GROUP SPECTRUM

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• A FEW T-SHIRT LINES WHICH SEEM TO CAPTURE THE FEELING OF THE SOCIAL GROUPS.

| SOCIAL GROUP | T-SHIRT LINE |
|---|---|
| GOODY GOODIES | - NONE (GOODY GOODIES ARE BORING. T-SHIRTS AREN'T.) |
| PREPS<br>DISCOS | - IT'S NOT WHETHER YOU WIN OR LOSE. IT'S HOW YOU LOOK PLAYING THE GAME. |
| ROCKERS | - IT'S IMPORTANT TO HAVE BELIEFS. I BELIEVE I'LL HAVE ANOTHER BEER. |
| PUNKERS | - IF YOU LOVE SOMETHING, SET IT FREE. IF IT DOESN'T COME BACK TO YOU, HUNT IT DOWN AND KILL IT. |
| BURNOUTS | - TIME FLIES WHEN YOU DON'T KNOW WHAT YOU'RE DOING. |

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# FUBYAS SOCIAL GROUPS SPECTRUM

- HOW THE GROUPS FEEL ABOUT EACH OTHER

GROUPS ON CONFORMING END OF SCALE VIEW NONCOMFORMING GROUPS WITH DISTASTE

NONCONFORMING GROUPS TEND TO RESENT CONFORMING GROUPS

- PHONY
- THE "HAVE'S" -- DON'T HAVE TO STRUGGLE FOR THINGS

ALL GROUPS TEND TO ADMIRE THE MOST NON-CONFORMING GROUPS

- NOT WHAT GROUP DOES
- BUT WHAT BEHAVIOR REPRESENTS:

  -- THE "GUTS" TO NOT CONFORM

  -- NOT BEING SADDLED WITH ANY SENSE OF RESPONSIBILITY

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FUBYAS SOCIAL GROUP SPECTRUM

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EXTREME NON CONFORMITY

INCREASING ORDER OF SMOKING INCIDENCE

| TODAY'S SOCIAL GROUPS | | THEY TOLD US... |
|---|---|---|
| • GOODY GOODIES | | |
| • PREPS<br>• GQ's<br>• DISCOS | LOW | "PREPS DON'T SMOKE" |
| • ROCKER<br>• PARTY PARTIES | HIGH | • "CIGARETTE TRENDS WOULD START WITH ROCKERS OR PUNKERS" |
| • PUNKERS | | |
| • BURNOUTS | | |

EXTREME NON CONFORMITY

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# FUBYAS SOCIAL GROUP SPECTRUM

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- WHY ARE FUBYAS SO WRAPPED UP IN FADS/TRENDS?

- FADS & TRENDS ARE VERY IMPORTANT TO THEM IN SEVERAL WAYS

-- THEY ARE CRITICAL TO EACH GROUP'S IDENTITY

- SERVE AS CUES/SYMBOLS
- DIFFERENT GROUPS HAVE CREDIBILITY TO START CERTAIN TYPES OF TRENDS
  - NICE CLOTHES -- PREPS
  - REAL BOOZE -- ROCKERS

-- FADS & TRENDS HELP SATISFY FUBYAS NEEDS:

- TO BELONG TO THE GROUP
- TO BE DIFFERENT VIA THE GROUP
- FOR EXCITEMENT IN BEING IN ON A TREND
- FOR SUCCESS IN SHOWING YOU'RE IN ON A TREND

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## FADS/TRENDS -- HOW DO THEY START/GROW?

- THE DIFFUSION MECHANISM -- SEED AND SPREAD

1. SEED

   - STARTS WITH SMALL GROUP
   - BECAUSE OF:
     - -- ECONOMIC FACTORS
     - -- SOCIAL CHANGE
     - -- DEMOGRAPHIC MIX CHANGES
     - -- INADEQUACY OF PRODUCT CATEGORY ALTERNATIVES
     - -- DESIRE FOR THE NEW, THE DIFFERENT

   - AT THIS STAGE--CALLED A BUZZ

   - EXAMPLE: MOHAWK HAIRCUTS IN THE VILLAGE

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2. SPREAD

- TO GROW/GAIN MOMENTUM--MUST BE PICKED UP BY LEADING EDGE IN OTHER GROUPS
- CALLED CROSSING OVER
- PERHAPS SOFTENED, MODIFIED TO APPEAL
- VARIATIONS OF THE MOHAWK, UPTOWN
- CELEBRITY ADOPTS ONE/MAGAZINES SHOW THEM
- THE FAD BECOMES THE FASHION
- FINAL STEP = ADOPTION BY THE MASSES

-- MAKES IT IN KANSAS CITY

-- THE "BUZZ" HAS MOVED ON.

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THUS, THOUGH YOU WOULD NOT TARGET A BRAND TO PUNKERS, ONE MIGHT CONSIDER A NEW BRAND IDEA IN LIGHT OF WHETHER OR NOT THERE IS AT LEAST ONE GROUP WHERE THE BRAND COULD FIRST "SEED."

FOR AN ESTABLISHED BRAND, ITS ABILITY TO START A NEW "BUZZ" MAY DEPEND ON THE BAGGAGE IT BRINGS BACK FROM KANSAS CITY.

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## BRAND ATTITUDE

THE ABILITY TO IMPROVE PERFORMANCE DEPENDS ON THE ATTITUDES AND BELIEFS THAT SMOKERS 18-20 HAVE ABOUT CIGARETTE BRANDS:

- DOES MARLBORO'S STRENGTH IN THIS SEGMENT MEAN THAT THEY "LOVE IT", THINK THAT IT IS THE "BEST BRAND", OR DO THEY SIMPLY CHOOSE IT "BECAUSE EVERYONE ELSE DOES" (WHY NOT?)
- DO THEY HATE WINSTON OR IS IT SIMPLY IRRELEVANT?
- WHY DO THEY LOVE OR HATE CERTAIN BRANDS?
- WHAT TYPES OF THINGS TURN THEM ON OR OFF?

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## MARKETING/MDD IMPLICATIONS

- FURTHER RESEARCH IS NEEDED TO QUANTIFY THIS LEARNING. SPECIFIC ISSUES CAN BE IDENTIFIED BY END USERS. GENERAL ISSUES ARE:

1. IMPORTANCE OF VALUES/WANTS (RELATIVE AND ABSOLUTE)
2. HOW ARE THEY EXPRESSED IN SMOKERS' LIVES
3. PERCEPTIONS OF SOCIAL SEGMENTS
4. ASSOCIATIONS OF SYMBOLS/CUES
5. LEVEL/NATURE OF BRAND ATTITUDES
6. BRAND LINKS TO ALL OF THESE

- SINCE NEW TRENDS OFTEN ARISE QUICKLY AND SYMBOLS CHANGE, A F&B MONITOR IS NEEDED. IT WILL ALSO BE NECESARY TO MONITOR PROGRESS AGAINST STRATEGIES ADOPTED.

- ENSURE THAT DETAILED STRATEGIC RESEARCH LEARNING IS INTEGRATED INTO ACTION PLANS AS THEY ARE DEVELOPED.

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MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

THERE ARE SEVERAL GENERAL GUIDELINES THAT SHOULD BE CONSIDERED IN ANY EFFORTS TO ADDRESS SMOKERS 18-20.

- USE PULL STRATEGIES -- DRAW CONSUMERS TO THE BRAND. AVOID THE HARD SELL. FEEL FREE TO BE A LITTLE IRREVERENT ABOUT THE BRAND.
- PAT, INSTITUTIONAL ADS LACK APPEAL. BE CLOSER TO THE EDGE. DON'T CHASE A TREND THAT HAS ALREADY HAPPENED.
- A GOOD PRODUCT IS CRITICAL BUT PRODUCT SELLS DON'T WORK. AVOID PROBLEM-SOLUTION POSITIONINGS.
- DON'T BE PHONY. FOR EXAMPLE, ENSURE EXECUTIONS HAVE INTERNAL INTEGRITY IN TERMS OF PREPPY VS. ROCKER LOOKS AND ACTIVITIES.
- AVOID PRICE DISCOUNTING TACTICS.
- MAKE THE MARKETING FIT . . .
  1. TODAY, NOT TOMORROW
  2. STAYING YOUNG/NOT IN THE RUT
  3. ON THE EDGE, NOT THE MIDDLE GROUND

SEE THINGS THROUGH THEIR EYES, NOT OURS.

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MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

CREATIVE AND IMAGINATIVE EXECUTIONS WILL BE THE KEY TO IMPROVING PERFORMANCE.

RJR'S CHALLENGE IN ADDRESSING THIS ISSUE PROBABLY LIES IN ESTABLISHING THE RIGHT PROCESS RATHER THAN SIMPLY CREATING SPECIFIC POSITIONINGS AND EXECUTIONS.

A POSSIBLE PROCESS:

- TALK TO ENOUGH SMOKERS TO ENSURE THAT WE FIND A REAL TARGET GROUP WITH A "COMMON MIND-SET" WORTH PURSUING.
- IDENTIFY SPECIFIC 18-20 SMOKERS WHO ARE PART OF THAT MIND-SET AND HAVE INSIGHTS AND JUDGEMENTS ABOUT PEOPLE WHO ARE LIKE THEM. USE AS A PANEL TO HELP PROVIDE CONTINUOUS FEEDBACK AND DEVELOPMENT EFFORTS ... ADVERTISING, PRODUCT PROMOTION, ETC.
- CHOOSE CREATIVE PROFESSIONALS (AGENCY OR OTHERWISE) WHO RELATE TO THE TARGET MIND-SET AND CAPITALIZE ON GROUP DYNAMICS BETWEEN THE EXPERTS AND THE PANEL.
- USE THE RESULTING SYNERGY TO BE CREATIVE AND IMAGINATIVE WITHIN RJR MANAGEMENT GUIDELINES.

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MARKETING/MDD IMPLICATIONS

II. STRATEGY AND EXECUTION (CONT'D)

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5. A PROCESS FOR DETERMINING EFFECTIVE STRATEGIES NEEDS TO BE IDENTIFED. KEY PROBLEMS MUST BE OVERCOME:

- A SEGMENTATION BY DEMOGRAPHICS, SEGMENT, OR CATEGORY IS NOT ADEQUATE BECAUSE SMOKER MINDSETS GO BEYOND THESE BOUNDARIES.
- POSITIONING AGAINST "DRIVING MOTIVES" -- BELONGING, DIFFERENCE, UPWARD STRIVING, EXCITEMENT AND SEX -- CAN POSE PROBLEMS, SINCE THESE WANTS FORM A TIGHTLY KNIT BUNDLE TO 18-20 SMOKERS. IT IS SOMEWHAT ARTIFICIAL TO SEPARATE THEM -- TO PICK ONE AND POSSIBLY VIOLATE THE OTHERS.
- THE HEART OF AN EFFECTIVE STRATEGY MAY BE AS MUCH THE MEDIUM AS THE MESSAGE -- FIELD MARKETING, SPECIAL EVENTS, ETC., AS OPPOSED TO MAGAZINES.
- WE MUST CIRCUMVENT THE PROBLEMS THAT MAKE BOTH RJR AND OUR ADVERTISING AGENCIES INCREASINGLY OUT OF TOUCH. AS YOUNGER ADULT SMOKERS BECOME INCREASINGLY NON-COLLEGE AND NON-PREPPY, THE ATTITUDINAL GAP BETWEEN MANAGEMENT (EVEN AT LOWER LEVELS) AND 18-20 SMOKERS IS LIKELY TO WIDEN. THIS MAKES IT HARD TO BE CREATIVE AND IMAGINATIVE IN A RELEVANT WAY.

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## MARKETING/MDD IMPLICATIONS

### II. STRATEGY AND EXECUTION

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HEARING

THERE ARE MAJOR ISSUES/TRENDS THAT MUST BE CONSIDERED IN DETERMINING THE BEST DIRECTIONS. IN SOME CASES, FURTHER RESEARCH IS NEEDED.

1. THE COOLNESS SEGMENT (AND MENTHOLS) SEEM HEADED FOR INEVITABLE DECLINES IN SHARE. THE BUSINESS THAT IS LEFT WILL GROW INCREASINGLY BLACK.

2. PREPS DON'T SMOKE -- THE MARKET IS LIKELY TO BECOME INCREASINGLY ORIENTED TO THE VALUES OF NON-COLLEGE SMOKERS, ROCKERS. THE SQUEAKY CLEAN LOOKS WILL BE OUT.

3. MARLBORO IS THE KEY COMPETITION, WITH NEWPORT BEING IMPORTANT FOR MENTHOL PRODUCTS IN THE BLACK SUBGROUP.

4. IN MARKETING TO YOUNGER ADULT SMOKERS, THE CRITICAL REACTION IS "HEY, THEY'RE TALKING TO ME." THIS SUGGESTS THAT VIABLE POSITIONINGS AND EXECUTIONAL THEMES MUST MORE THAN JUST "APPEAL" TO YAS, THEY MUST APPEAL TO YAS IN A WAY THAT "DIFFERENTIATES" THEM FROM ALL OTHER GROUPS AND DIFFERENTIATES OUR BRAND FROM ALL OTHERS IN A MEANINGFUL WAY.

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- JUNIOR LEVEL COMMITMENT

"ONCE AUGUST BUSCH REALLY SHOWED HE WAS COMMITTED TO YOUNGER ADULT MARKETING, DOORS OPENED UP AND NO ONE WAS AFRAID TO COME UP WITH IDEAS. BEFORE THEN, THE IDEAS WERE THERE BUT PEOPLE WERE AFRAID TO TALK ABOUT THEM. THE IDEAS FOR THIS MARKET OFTEN COME FROM JUNIOR PEOPLE. THEY'RE THE ONES WITH THE ENERGY TO PUT INTO FIELD MARKETING. BUT THEY DON'T HAVE THE CREDIBILITY SO SOMEONE AT A HIGHER LEVEL MUST BELIEVE IN THEM AND GET THE IDEAS TO THE JOR PEOPLE."

- WE NEED TO REMEMBER THAT BIG PAY-OFFS MAY TAKE 3 OR 4 YEARS TO ACHIEVE BOTTOM-LINE RESULTS. A SOLID STRATEGY IS NEEDED AS WELL AS THE RESOURCES TO IMPLEMENT IT AND MONITOR ITS PROGRESS. FOR EXAMPLE, THE BUDWEISER PROGRAM HAS GROWN FROM 1 MAN/$1MM TO 18 PEOPLE/$10MM.

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## MARKETING/MDD IMPLICATIONS

THE ABSOLUTE BOTTOM LINE IS THE NEED FOR

I. COMMITMENT

II. IMAGINATIVE STRATEGIES AND EXECUTION.

### I. COMMITMENT

THE FOLLOWING QUOTES WERE TAKEN FROM THE "EXPERT WORKSHOP" NEW YORK -- AND EVERYONE IN THE ROOM SMILED AND NODDED.

- TOP MANAGEMENT COMMITMENT

  "WITHOUT HAVING SOLD AUGUST BUSCH ON THE NATURE AND THE RISKS OF YOUNGER ADULT MARKETING, WE COULD NEVER HAVE TURNED AROUND BUDWEISER. YOU JUST CAN'T DO IT WITHOUT THE SUPPORT OF TOP MANAGEMENT."

- MIDDLE MANAGEMENT COMMITMENT

  "THE PROBLEM WHEN YOU HAVE A GOOD IDEA FOR THE YOUNGER ADULT MARKET AND YOU HAVE TO GO UP THE CHANNEL FOR APPROVAL IT GETS WATERED DOWN VERY QUICKLY. EVERYBODY WANTS TO TAKE RISKS AND BE THE ENTREPRENEUR. BUT WHEN THE BRAND MANAGER'S JOB IS ON THE LINE BECAUSE HE'S GOT TO SELL A CAMPAIGN TO AUGUST WHERE YOU'RE GOING TO THROW BEER AT PEOPLE -- HIS PRODUCT, YOU'VE GOT TO KNOW AUGUST BUSCH -- YOU START TO LOSE THAT RISKING ABILITY INSIDE. THE IDEAS GET WATERED DOWN AND THE COMPANY FAILS AT YOUNGER ADULT MARKETING."

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BRAND ATTITUDE

CONCLUSIONS

1. RJR CAN IMPROVE PERFORMANCE VERSUS MARLBORO. THEY DO NOT HAVE INSURMOUNTABLE STRENGTHS IN IMAGERY -- FUBYAS SMOKE IT BECAUSE EVERYONE ELSE DOES AND THEY DON'T SEE VIABLE, ATTRACTIVE ALTERNATIVES.

2. THERE ARE MAJOR OPPORTUNITIES TO USE NONTRADITIONAL CHANNELS TO EFFECTIVELY REACH THE 18-20 SMOKER MARKET -- TO REACH THEM, SPEAK IN THEIR OWN LANGUAGE INCLUDING THE RIGHT SYMBOLS AND CUES, AND BE RELEVANT. THIS IS THE HEART OF THE JACK DANIELS AND BUDWEISER SUCCESS STORIES AND NO CIGARETTE COMPANY IS DOING IT -- AT LEAST NOT RIGHT!

3. IT IS POSSIBLE TO IMPROVE PERFORMANCE WITH CAMEL, WINSTON, AND SALEM, BUT EACH HAS DIFFERENT STRENGTHS AND WEAKNESSES.

- CAMEL - TENDS TO RECEIVE MORE POSITIVE COMMENTS THAN OUR OTHER BRANDS ALTHOUGH ITS NON-FILTER HERITAGE IS STILL PROMINENT. IT'S STRONG VISUAL IDENTITY MAKES THE BRAND INTERESTING AND LENDS ITSELF TO SPECIAL PROMOTION. PEOPLE NOTICE CAMEL. WHILE ITS NON-FILTER SUGGESTS PRODUCT NEGATIVES, IT DOES FORM A SOLID LINK TO AUTHENTICITY AND PRODUCT QUALITY -- ITS ORIGINS IN THE "GOOD OLD DAYS" IS NOT A NEGATIVE.

- WINSTON/SALEM -- IGNORED MORE THAN HATED. THESE BRANDS CARRY THE BAGGAGE OF BEING IN KANSAS CITY FOR SO LONG ... AND THE USER IMAGE ASSOCIATED WITH THIS. THE BRANDS ARE SIMPLY NOT VERY INTERESTING -- PACK, NAME, ETC. THESE ARE SEEN AS CLEAR #2 BRANDS WITH PRODUCT NEGATIVES.

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## BRAND ATTITUDE

### FINDINGS

1. VERY FEW SMOKERS 18-20 ARE AWARE OF CIGARETTE ADVERTISING--HOW THEY ARE "POSITIONED". BRAND PERCEPTIONS ARE MORE LIKELY TO COME FROM USERS THEY SEE.

2. ATTITUDES ABOUT CIGARETTE BRANDS ARE NOT EXTREME IN MOST CASES --USUALLY THEY ARE NEITHER LOVED NOR HATED. THIS SEEMED TRUE EVEN FOR MARLBORO.

3. THE ONLY ATTITUDES THAT WERE STRONG ENOUGH TO BLOCK A BRAND WERE USUALLY PRODUCT DRIVEN--"THEY ARE REALLY ROUGH BECAUSE THEY'RE NOT FILTERED", OR "THEY TASTE LIKE STALE MARLBOROS", OR "THEY TASTE LIKE COTTON". THIS MAY MEAN OUR PRODUCT PERCEPTIONS NEED TO BE TURNED AROUND -- AS BUDWEISER'S WERE.

4. THE MOST SENSITIVITY WHEN IT COMES TO IMAGERY IS LOOKING PHONY --OF TRYING TO BE MORE THAN YOU ARE, SOMEWHAT LIKE THE ROCKER'S ATTITUDE TOWARD PREPS.

5. RESPONDENTS TENDED TO ASSOCIATE BRANDS WITH THEIR GROUP STEREOTYPES AS FOLLOWS:

- "PREP" BRANDS: PLAYERS, V. SLIMS, B&H, VANTAGE, NEWPORT.
- "ROCKER" BRANDS: CAMEL, WINSTON, MARLBORO, AND KOOL.

OBVIOUSLY, MARLBORO WAS "ACCEPTED" IN ALL GROUPS.

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